UNITED STATES TRADE REPRESENTATIVE

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301 COMMITTEE

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SECTION 301 TARIFFS PUBLIC HEARING

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TUESDAY
JULY 24, 2018

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The 301 Committee met in the Courtroom of the U.S. International Trade Commission, 500 E Street, SW, Washington, D.C., at 9:30 a.m., William Busis and Arthur Tsao, Co-Chairs, presiding.

PRESENT

WILLIAM BUSIS, Chair, U.S. Trade Representative
ARTHUR TSAO, Chair, U.S. Trade Representative
ALEXANDER ABAJIAN, Council of Economic Advisers
RAVI BHARWANI, Department of Health and Human Services
CHRISTOPHER BLAHA, Department of Commerce
DOVIE HOLLAND, Department of State
ANN MAIN, Department of Commerce
MAUREEN PETTIS, Department of Labor
KATE PSILLOS, Department of Commerce
TRACY ROY, Department of Homeland Security, Customs and Border Protection
ARI SULBY, Department of State
TIMOTHY WINELAND, U.S. Trade Representative
AMY ZUCKERMAN, Department of Treasury

STAFF PRESENT

BILL BISHOP, U.S. International Trade Commission
TYRELL BURCH, U.S. International Trade Commission

WITNESSES PRESENT

S. GEORGE ALFONSO, HomeServe USA
RICHARD BAILLIE, Fluoropolymers Trade Alliance
ANDY BARNAUSKAS, Banner Engineering
PHILLIP BELL, Steel Manufacturers Association
GUY BENTLY, Reason Foundation
PAUL BLAIR, Americans for Tax Reform
MARK BRADLEY, K2 Urethanes, LLC
TIMOTHY BRIGHTBILL, SolarWorld Americas, Inc.
RANDY BUSCH, Value Vinyls, Inc.
SAGE CHANDLER, Consumer Technology Association
JOSEPH COHEN, Snow Joe, LLC
JAKE COLVIN, National Foreign Trade Council
GREGORY CONLEY, American Vaping Association
CATHERINE CUMMISKEY, CellMark USA, LLC
BRITTANI CUSHMAN, Vapor Technology Association
JONATHAN DAVIS, SEMI
CRAIG DEAN, Dean Technology, Inc.
ARNAUD DUMAS DE RAULY, Blinc Group
DANIEL DUNCAN, Peerless Manufacturing
BERNARD FELDMAN, American Wire Group & Classic Wire and Cable
RICK FIREHAMMER, Universal Electronics, Inc.
MIKE GRAY, Valmet Corporation
JANE HARDY, Brinly-Hardy Co.
ROBERT HINSCH, Top Value Fabrics, Inc.
GREGORY HUSISIAN, Alps Electric
DAVID ISAACS, Semiconductor Industry Association
ED JENKINS, Impak Films US, LLC
JOSH KALLMER, Information Technology Industry Council
MICHAEL KERSEY, American Lawn Mower Co.
MARK KINZIE, Logitech, Inc.
DAVID KOERNER, Kittrich Corporation
MATT KOPKO, Bird Rides, Inc.
STEVE KORN, Kimball Electronics, Inc.
GARY LOBAZA, MTD Products, Inc.
LEE MAO, Lianda Corporation
HEIDI McAULIFFE, American Coating Association
GREG MERRITT, Cree, Inc.
CHARLIE MURRAH, Southwire Company, LLC
TRACY MUSGROVE, Revolutionary Vapes, LLC

BILL NEW, Coalition of Energy Equipment Manufacturers
LINDA ROUSE O'NEILL, Health Industry Distributors Association
AL PAPE, Shamrock Technologies, Inc.
SLONE PEARSON, Fortive Corporation
DEAN PINKERT, Solar Energy Industries Association, Inc.
JOSEPH PON, Applied Materials, Inc.
HUN QUACH, Retail Industry Leaders Association
SHI CHAO QUAN, ZTT International
CHRIS RICE, Daikin Applied Americas
AARON SCHAPPER, Valmont Industries, Inc.
CHARLIE SOUHRADA, North American Association of Food Equipment Manufacturers
GARY STANITIS, Daikin America
ROBERT G. STRAHS, II, Priority Wire & Cable, Inc.
KEN STRAIT, Tractor Supply Company
JACOB STURGEON, Wanhua Chemical (America) Co., Ltd.
DONALD SZCZEPANIAK, Prismview
CRAIG UPDYKE, National Electrical Manufacturers Association
CARRIE WADE, R Street Institute
NATHAN WALKER, Goodman Global, Inc.
LARRY WILLIAMS, Steel Framing Industry Association
BO YI, Southeast University Law School
DAVID ZALESNE, American Institute of Steel Construction

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Panel Seven

Panel Eight

P-R-O-C-E-E-D-I-N-G-S

(9:34 a.m.)

MR. BISHOP: Will the room please come to order?

CHAIR BUSIS: Good morning and welcome.

The Office of the United States Trade Representative in conjunction with the interagency Section 301 Committee is holding this public Hearing in connection with the Section 301 investigation of China's acts, policies, and practices related to technology transfer, intellectual property, and innovation.

The United States Trade Representative initiated this investigation on August 18, 2017.

On June 20, 2018, USTR published a Federal Register notice announcing the Trade Representative's determination to impose an additional duty of 25 percent on products from China with an annual trade value of approximately $34 billion. That noticed is published at 83-FR-28710.

The June 20 notice also seeks public comment on proposed additional trade action to be taken in the investigation.

The proposed additional action is an additional 25 percent duty on a list of products from China with an annual trade value of approximately $16 billion.

The purpose of this Hearing is to receive public testimony regarding the proposed additional action.

The Section 301 Committee will carefully consider the testimony, the written comments already received in response to the Federal Register notice, and the post-Hearing comments due on July 31.

The 301 Committee will then make a recommendation to the Trade Representative on additional action to be taken in the investigation.

At this time, I would like to welcome our first witness, Representative Kevin Cramer of North Dakota, to the Hearing. Representative

Kevin Cramer, you have the floor.

REPRESENTATIVE CRAMER: Thank you, Mr. Busis, and Members of the Trade Policy Committee.

As I said to you in May of this year, I support President Trump's leadership in working towards a more fair and reciprocal trade relationship with China.

After years of unsuccessful U.S.-China dialog, the United States is taking action to confront China over its state-led, market-distorting policies and practices, forced technology transfers, intellectual property practices, and cyber-intrusions of United States commerce.

It is past time we take strong defensive actions to protect America's lead in technology and innovation. The negligence of previous administrations in dealing with China's trade issues has put this president in a difficult position.

However, President Trump recognizes that if we want the United States of America to remain the most advanced and influential country in the world, we must take an aggressive stand to uphold fair trade and protect American competitiveness.

We recognize that President Trump has been fighting for American agriculture since Inauguration Day, and we expect this effort to continue until China comes to the table with a fair and reciprocal agreement.

I'm here today to express my concern regarding China's retaliatory tariffs that have been imposed in response to the United States' early efforts.

I represent agricultural producers and manufacturers of North Dakota who have felt a direct impact of China's retaliatory actions on their livelihoods.

Our farmers are some of the most patriotic people in America. Collectively, they're able to weather short-term pain if in the end it yields long-term gain.

However, with an already fragile farm

economy, retaliatory tariffs are further hindering those who work tirelessly to feed the world with safe, affordable, and nutritious food.

Net farm income is down 52 percent since 2013, in one of the steepest declines since the Great Depression. Chapter 12 bankruptcies have risen by 33 percent from just two years ago and costs of production have steadily climbed.

The current financial hardship of farming is due, in part, to predatory trade practices of foreign countries, including high and rising subsidies, tariffs, and non-tariff trade barriers.

China retaliated by imposing tariffs on a number of U.S. goods, including a 25 percent import tariff on U.S. soybeans.

North Dakota ranks among the top-ten soybean-growing states. This year there are 6.6 million acres of soybeans in the ground in North Dakota, a record high for the state, and the first time there are more soybeans planted than corn.

In 2017, Cass County, North Dakota,

produced over 18 million bushels of soybeans, second in the nation.

Earlier this month, Chinese buyers cancelled all of their firm orders of North Dakota's specialty food-grade soybeans worth nearly $1.5 million, about 5 percent of North Dakota's annual food-grade soybean contracts. The soybean market is following the lack of soybean demand pursuant to China's direction to buy from South American countries that do not have a 25 percent import tariff on soybeans.

Soybean prices are down nearly 17 percent from April of this year. The soybean price is heading below breakeven. Yesterday, August soybeans were at about $8.47 a bushel.

Using North Dakota State University's crop budgets, the breakeven price for soybeans in southeastern North Dakota is about $8.10 a bushel. The market speaks for itself.

Additionally, corn prices are following soybeans and closed about six percent lower than this time last year. Also, it's important to bear in mind that the economic cycle of agriculture is one year.

The seasons do not wait for trade disputes to be settled, the harvest comes in the autumn and planting happens in the spring. Producers will make next year's planting decisions based on this year's market and bankers will decide whether to finance them based on next year's opportunity.

While we are encouraged by recent discussions and commitments to new markets there are not viable transportation routes for commodities from North Dakota to fulfil markets outside of the Pacific Northwest.

The transportation barrier is likely to negatively impact price basis of soybeans. There is eminent concern that longstanding markets may be lost forever. One bad year for agriculture may be the end of a career for many producers.

Members of the Trade Policy Committee, our farmers grow food with such advancement that United States agriculture has a trade surplus.

U.S. agricultural exports have traded at a surplus every year since 1959.

While some disruption may be a necessary part of the trade negotiation process with China, it should not all be done on the backs of our farmers. For our farmers to be successful, we need to grow, not shrink, our markets.

And I urge President Trump to engage directly with China's President Xi and negotiate an agreement before it is too late for our farmers. The harvest will not wait, nor will the banker.

That ends my testimony, I thank you.

CHAIR BUSIS: Congressman, thank you for taking your time to speak directly to the Committee. We appreciate it.

Before we proceed with the rest of the session, I will provide some procedural and administrative instructions and ask the Agency representatives participating in the Hearing today to introduce themselves.

The Hearing is scheduled for two days,

finishing midday on Wednesday. We have 11 panels of witnesses with over 80 individuals scheduled to testify. The provisional schedule has been posted on the USTR website.

We have eight panels of witnesses scheduled to testify today. We will have a brief break between panels and a longer break for lunch.

Each witness appearing at the Hearing is limited to five minutes of oral testimony. The light before you will be green when you start your testimony, yellow means you have one minute left, and red means your time has expired.

After the testimony from each panel of witnesses, the Section 301 Committee will have an opportunity to ask questions. All questions will be from Agency representatives, there will be no questions accepted from the floor.

Committee representatives will generally direct their questions to one or more specific witnesses. Post-Hearing comments including any written responses to questions from the Section 301 Committee are due by Tuesday, July 31.

The rules and procedures for written submissions are set out in the June 20 Federal Register notice.

Given the number of witnesses in our schedule, we request that witnesses when responding to questions be as concise as possible. We likewise ask witnesses to be understanding if and when the Chair ask that a witness conclude a response.

Witnesses should recall that they have a full opportunity to provide more extensive responses in their post-Hearing submissions.

No cameras, video, or audio recording will be allowed during the Hearing. A written transcript of this Hearing will be posted on the USTR website and on the Federal Register docket as soon as possible after the conclusion of this Hearing.

Mr. Bishop, if we could seat the first panel at this time?

MR. BISHOP: Would the Members of the first panel please come forward and be seated? And would the Members of the second panel please come forward and be seated in our witness waiting area? Thank you.

CHAIR BUSIS: We are pleased to have international trade and economic experts from a range of U.S. Government Agencies on the Section 301 Committee today.

I would ask that each representative introduce themselves, starting with Mr. Sulby at the end.

MR. SULBY: Ari Sulby, Department of State.

MS. PETTIS: Maureen Pettis, Department of Labor.

MS. ROY: Tracy Roy, Homeland Security.

MS. ZUCKERMAN: Amy Zuckerman, Department of Treasury.

MR. BLAHA: Chris Blaha, Department of Commerce.

MS. MAIN: Ann Main, Office of the U.S. Trade Representative.

CHAIR BUSIS: And William Busis, USTR, and Chair of the Section 301 Committee.

Mr. Bishop, I think we can have our first witness now?

MR. BISHOP: Our first witness on this panel is Richard Baillie with the Fluoropolymers Trade Alliance. Mr. Baillie, you have five minutes.

MR. BAILLIE: My name is Richard Baillie and I am the President of Baillie Advanced Materials, a U.S. distributor of fluoropolymer products based in Newark, Delaware. I represent the Fluoropolymers Trade Alliance, a group of U.S. processors, compounders, and distributors here to testify against the proposed 301 duties on PTFE and other fluoropolymers imported from China under Tariff Codes 3904.61 and .69.

For simplicity, I will refer to all products within these codes as fluoropolymers.

We oppose these duties that will have a devastating effect on the domestic fluoropolymer industry, hurting our competitiveness and driving jobs and investment out of the U.S. Today, the domestic fluoropolymer industry is globally competitive and healthy as shown by a large and growing trade surplus with China that will be jeopardized by the proposed 301 duties.

Fluoropolymers are components in a wide variety of products that are manufactured in the U.S. and are essential to our economy. These include medical implantable devices, cookware, sealants, wiring cable insulation, dental floss, architectural coatings and fabrics, apparel, solar cells, and batteries.

These also include many products necessary for oil and gas exploration, semiconductor manufacturing and military and aerospace applications.

Fluoropolymers have been my life's work. I am a chemical engineer who started at DuPont, where I led the manufacturing plants for

Teflon PTFE and fluoroelastomers in West Virginia and New Jersey.

I also work for WL Gore, the makers of GORE-TEX, I founded two distributorships, including the only fluoropolymer distributor in the U.S. for Chemours. I have also served as the Chairman of the Fluoropolymers Division in the Plastics Industry Association.

Based on my life's experience, I testify that 301 duties imposed on these products would cause severe and irreparable economic harm to the U.S. fluoropolymer industry. Many U.S. businesses will be harmed, small, medium, and large.

There are over 4000 of these businesses in the U.S. employing hundreds of thousands of workers. The fluoropolymers purchased by these businesses are very expensive and typically the only products which work.

Our industry employs highly skilled workers including thousands of machinists who create parts from stock shapes of PTFE.

Our industry sells billions of dollars of fluoropolymer resins that are converted into tens of billions of dollars of products that are essential to the U.S. economy.

The U.S. fluoropolymer industry has for decades processed products manufactured domestically and imported.

Today China is an essential trading partner. Two-thirds of global fluorspar production comes from China. Because fluorspar is the only source of fluorine in the manufacture of fluoropolymers, our industry depends on a healthy trading relationship with China.

We have a large and growing trade surplus with China for fluoropolymers. In 2017, we had a nearly 15-million-dollar trade surplus with China and a 21-million-dollar annualized surplus for 2018. This surplus demonstrates our healthy trading relationship with China that is necessary for our industry to survive, but can only be damaged by the 301 duties.

There is insufficient U.S. capacity to

supply our industry. The handful of domestic producers do not make enough volume and variety for our needs. Some grades of fluoropolymer products are made only in China.

Further, there is currently a critical worldwide supply shortage of fluoropolymers with producers routinely limiting supply to the processors. 301 duties would exacerbate the supply shortage and threaten our ability to remain globally competitive.

The U.S. fluoropolymer industry is currently strong and growing. The proposed duties endanger our hundreds of thousands of employees.

These duties would require our businesses to invest in and employ workers abroad to remain competitive because the cost of fluoropolymers is typically their largest expense.

Once this happens, it would take decades to reverse the harm, even if the duties are in effect for a short time. Small and medium-sized businesses will suffer the most without the global reach and resources necessary to remain competitive.

The tens of billions of dollars which we contribute to the U.S. economy are at stake. 301 duties on fluoropolymers from China do not serve our national interest.

Our industry currently benefits from fair and reciprocal trade with China, as shown by our domestic producers having facilities there and our trade surplus.

301 duties on these products will upset the favorable balance that the U.S. industry enjoys today and will cause severe harm to the U.S. fluoropolymer industry.

We urge the administration not to take such action that will cost American jobs, exacerbate the current supply shortage, and risk our healthy trade surplus.

On behalf of the Fluoropolymer Trade Alliance, I appreciate the opportunity to testify and can answer any questions.

MR. BISHOP: Thank you, Mr. Baillie. Our next witness is Mark Bradley with K2 Urethanes LLC. Mr. Bradley, you have five minutes.

MR. BRADLEY: Good morning, my name is Mark Bradley and I own and run a company called K2 Urethanes.

We distribute chemicals that go into urethanes manufacture, which includes things like the cushions that we're sitting on and a lot of automotive components.

So we buy from local producers but also a significant amount from China. Specifically, the duty that I'm concerned about is for polyether polyols, which is 3907.20.00, the harmonized tariff code.

To cut to the chase, obviously it will hurt my company and maybe you care about that and maybe not, I don't know, but the U.S. has a 102-million-dollar trade surplus in polyether polyols with China. That's just with China, $102 million.

So roughly speaking, for every metric

ton that comes into the U.S., four metric tons leave for China. So obviously, I don't think that's in the best interest of the U.S. trade deficit to eliminate because I'm presuming that China will put on retaliatory tariffs on the same good.

The second thing, and this gets a little bit more complicated, I don't want to give a chemistry lesson, but one of the most important components and the way you make polyols, I guess to simplify it, is that they are mainly made from oil and natural gas components.

Obviously, you know from shale gas that the U.S. is extremely competitive in the energy field. We've gone from a huge importer to an exporter in that area. So the chemical industry in the U.S. is extremely, extremely competitive.

One of the main chemicals that's used to make polyols, because polyol technology is actually very easy to get, is called propylene oxide.

Three of the largest producers and most

technically sophisticated propylene oxide manufacturers are in the U.S. Those would be DowDuPont, LyondellBasell, and Huntsman Chemical.

Right now there's roughly a 15-million-dollar trade surplus with China, but that's expected to grow significantly as LyondellBasell is building the largest propylene oxide plant in the world in Houston, Texas.

And a lot of that is scheduled to be shipped to China. China's the largest market for propylene oxide.

So in addition to hurting the polyols market, which I said was $102 million of trade this year -- $102 billion, sorry, million, my bad -- it'll also hurt the propylene oxide of about $50 million. And that's expected to grow significantly.

So my main argument is that imposition of these duties and the retaliatory duties from China will actually hurt the U.S. trade deficit significantly.

I guess in addition, a lot of this has

to do with Section 301 and the Made In China 2025 program. Well, polyols are not really part of that program.

Polyol technology has been around since the '40s and the '50s, and you can get that technology anywhere, you can practice it anywhere in the world. If I had a few extra million dollars, I could probably build a plant in the next year in the U.S.

We have plenty of producers here, the producers here are very competitive, the producers in China don't really have a large share of the U.S. market, only 2.1 percent, but it's an important 2.1 percent for me anyway.

And therefore, I guess just in summary, I believe that the duty on polyether polyols of an additional 25 percent will hurt U.S. companies, producers, and certainly me, but also I don't believe that putting this duty on will do anything to push forward the Section 301's objectives.

Thank you very much for your time today.

MR. BISHOP: Thank you, Mr. Bradley.

Our next witness is Kate Cumminsky with CellMark USA, LLC. Ms. Cumminsky, you have five minutes.

MS. CUMMINSKY: Good morning, my name is Kate Cumminsky, I'm a Safety and Compliance Manager with CellMark and my testimony will cover the Tariff Code 3905.99.80.00 for POVIDONE.

We're a global supplier of chemical products and we specialize in sourcing, sales and marketing, and custom manufacturing of specialty chemical products.

We deal primarily in organic and inorganic specialty and fine chemicals, performance minerals, and active ingredients.

We sell our portfolio of more than 700 products in the industrial and health and personal care markets. We're also a Member of the National Association of Chemical Distributors.

In my testimony I added a sheet today with a study that they had done on how this list too will affect the chemical distributor industries.

These punitive duties will have a

direct impact on our business and the business of our customers in terms of lost sales and profitability which, in turn, has a negative unintended effect on our employees and capital investments.

This product uses a binder in dietary supplements and pharmaceuticals, markets that are strictly regulated by FDA, and in an already competitive market, it is typical that we lose customers on very marginal price differences.

To sustain our customers and stay competitive we need to go through a very time-consuming and costly process of approving a new manufacturer. The vetting of a safe and high-quality manufacturer will involve time, factory audits, documentation and the possible disruption of longstanding relationships.

Consequently, all this will result in an added operational cost to our company. Foreign audit alone can cost us $5000, that's if we were doing another trip over there.

This process takes about six months to

a year if it all goes well. And for one manufacturer and one customer, our process cost about $10,000 per manufacturer and $2000 per customer, and negatively impacts by months the delivery of the product to the market.

We currently have eight customers of this product, some of which are fellow distributors who will also have to do the same process that we have to do to qualify the goods for their customers.

In a recent resourcing search, we found only one potential supplier of the same product from India.

Lastly, if we need to leave this business, it will negatively impact a 5-million-dollar plant that we are building in Connecticut and its 24 employees.

Now, we even are more concerned because Round 3 of these Chinese punitive tariffs includes most of our U.S. business. The impact of this tariff reaches far beyond pricing out of the market on a single import.

Disrupting the market in this way potentially increases the risk to FISMA compliance and a secure supply chain.

Therefore, I strongly request that the Trade Representative remove this code, 3905.99.80.00 from Annex C due to the irreparable harm it would cause on CellMark's ability to conduct business.

Thank you again.

MR. BISHOP: Thank you, Ms. Cumminsky. Our next witness is Jacob Sturgeon with Wanhua Chemical America. Mr. Sturgeon, you have five minutes.

MR. STURGEON: Thank you, 301 Committee for your time today and allowing us to testify. my name is Jacob Sturgeon, I'm the General Manager of Wanhua Chemical America.

Wanhua is a global manufacturer of polyurethane feedstock chemicals, including isocyanates and polyols. Our U.S. business, headquartered in Philadelphia, imports and distributes the company's polyurethane feedstock chemicals from its manufacturing bases in Europe and China.

Over the last 12 years, Wanhua and its affiliates have hired more than 60 direct employees in the United States, opening offices in Pennsylvania, Texas, and Louisiana.

Wanhua has been gradually expanding its business and employee numbers in the U.S. Wanhua is a proud Member of the American Chemistry Council, in fact, the only Chinese chemical producer to be a Member of the American Chemistry Council.

We're Members of the Louisiana Chemical Association and of the American Coating Association, who are testifying here today as well.

Wanhua has recently announced a 1.2-billion-dollar investment plan in the State of Louisiana to build a main chemical complex which will create over 1000 direct and indirect jobs in the states of Louisiana, Texas, and Pennsylvania.

This $1.2 billion investment works, actually, to achieve the administration's goals of bringing offshore manufacturing to the U.S., and addresses the trade imbalance with China.

We respectfully object to the increased tariffs on various polyurethane-related chemical products, especially polyether polyols, which were already mentioned by the previous testimony of Mr. Bradley, HDI trimer, HDI biuret, and pre-polymers of MDI.

A detailed list of the specific tariff codes has been submitted in the written testimony.

The proposed tariff increases on these chemicals will negatively influence job opportunities and employment benefits of our company and our customers in the U.S., threaten the market position of our company in the U.S., and threaten the viability of our new investment project that will create over 1000 job opportunities.

These products are very basic chemical raw materials unrelated to the Made In China 2025 program and are not involved in any intellectual property disputes related to China.

The administration's Section 301 proposed tariffs directly threaten the polyurethane industry in the United States, bringing disproportionate economic harm to small and medium-sized businesses and consumers in the U.S.

Three brief examples, polyether polyols, as already mentioned by the previous testimony, are used to make, among other things, home appliance insulation for refrigerators and freezers, and over 60 percent of the polyether polyol coming from China to the U.S. is for this particular application.

Home appliance manufacturers use these customized formulations of polyether polyols, tailor-made for their unique processes, to meet U.S.-Government-regulated E star ratings, energy star ratings.

Since these custom formulations can take over one year to develop and approve, the appliance manufacturers using Chinese polyols have no short-term alternatives and will be forced to pay the additional punitive duties on polyol.

A second example, aliphatic isocyanates, including HDI trimer and HDI biurets included in the tariff list, are used in UV-stable, automotive coatings applications.

There are only two U.S. manufacturers, both of whom are foreign-controlled, that together account for 75 percent market share of HDI trimer and biuret in the United States.

Wanhua's products offer the U.S. markets choice and increased competition in this oligopolistic market. Excuse me, that's a tongue twister.

Example 3, pre-polymer MDIs are used for a wide variety of technical polyurethane applications, including coating, sealants, footwear, furniture and bedding, automotive interiors, and playground and sports-track surfaces.

Many large polyurethane users who consume such MDI pre-polymers can manufacture their own from underlying MDI feedstocks, but small and medium-sized businesses rely on the MDI manufacturers, including our company, to make these intermediate MDI pre-polymers.

One of the feedstocks for many MDI pre-polymers is so-called 24 MDI, an isomer of pure MDI, which is globally short in supply, and China has the largest 24 MDI production so has the most readily available MDI pre-polymers as a result.

These proposed increased tariffs on these polyurethane raw materials will not protect the U.S. industry. On the contrary, it will decrease the competitiveness of the U.S. market, harm U.S. industries, traders, users, and ultimately, the consumers.

These examples highlight the wide array of downstream industries that polyurethanes affect.

Polyurethanes are ubiquitous from energy consuming, spray polyurethane foam, and other building insulations, to home appliance insulations, textiles, footwear, bedding, automotive seats and interiors, industrial sealants, wood coatings, adhesives, no added formaldehyde binders for the wood and foundry industries.

The impact of these proposed tariffs on polyurethane chemical raw materials is broad and will impact jobs around the country.

Therefore, Wanhua respectfully urges the U.S. Government to consider all of these factors, protect competition, industry and consumers, and remove these products from the proposed increased tariff lists.

Thank you.

MR. BISHOP: Thank you, Mr. Sturgeon. Our next witness is Lee Mao with the Lianda Corporation. Ms. Mao, you have five minutes.

MS. MAO: Thank you. Thank you for allowing me to testify before you to explain my company's concern about the possibility that a 25 percent tariff could be imposed on chlorinated polyethylene elastomer, also known as CPE.

I am the President of the Lianda Corporation, a small family business located in

Twinsburg, Ohio.

Lianda is a distributor of a high-performance elastomer in the chemicals. Our focus is rubber in the appliance industry, which we have served for 23 years.

Lianda's business model is to provide high-quality products to our U.S. customers to be more competitive in terms of performance and cost.

Lianda imports and distributes CPE to over 200 U.S. customers for use in a variety of end products, like automotive oil, industrial rubber hose, and electrical cable for power, and mining applications.

CPE is also used in the vinyl siding, fence, and decks to make these products less brittle and more durable.

We understand the tremendous effort made by this administration to reduce the trade imbalance. However, in this particular instance, we believe that the extra 25 percent tariff will only increase cost and reduce competitiveness to our U.S. customers. Here are the main points.

China is the only country that produces CPE in quantities necessary to supply the U.S. and world markets. There are no other viable sources and the increased tariff would not affect the trade imbalance.

Therefore, imposing a 25 percent additional tariff will disproportionately harm the interest of the U.S. companies and our consumers.

Increased capacity of CPE production in other countries than China is not a viable solution for the following reason.

It will take two to three years at least to build additional capacity and it will take three to four years in an additional plant for polyethylene, a key ingredient for CPE production, to rebuild. Thus, there's no short term solution to increase China's capacity. Further, construction of each of these plants will cost tens of millions of dollars, or up to hundreds of millions of dollars for multiple facilities.

More importantly, the supply in the CPE market is in gross over-demand. Building additional capacity would entail substantial and extraordinary risk on the part of the chemical company or any investors.

Therefore, the likelihood of increasing the capacity from other countries is very small.

China will remain as the principal suppliers of CPE for years to come. Our customer quality system mandates comprehensive validation testing which could easily cost over $100,000 and take 12 to 18 months to complete.

To avoid a 25 percent tariff, many of our U.S. customers may leave the U.S. by shifting production of their high-value downstream CPE-related products to other countries with no extra tariff.

Beyond a CPE manufacturer, Weifang Yaxing Chemical is a publicly-traded company in the north, a state-owned enterprise. Yaxing purchased its CPE-manufacturing technology from

Hoechst, Germany, in 1990.

To our knowledge, production of the CPE does not involve advanced technology for the purpose of the Made In China 2025 program. We have received customer letters supporting our request.

In light of the above, China's role as a principal supplier of CPE to the U.S. is unlikely to change due to the costs, time, and the risk involved in building new CPE production facilities.

Assisting CPE with the tariff will cause little or no harm to China, the end result will be the U.S. producer will be put at a competitive disadvantage, and the U.S. consumer will pay a higher price.

Moreover, imposing a 25 percent tariff on CPE will encourage the U.S. producer to shift production of their high-value downstream CPE-related products to countries with no extra tariff. This result is of disproportionate economic harm to U.S. interests, vis-a-vis providing any incentive for trade imbalance.

Therefore, we ask the Committee to except CPE from the Section 301 tariff for sake of the maintaining U.S. manufacturing competitiveness, protecting U.S. manufacturing jobs, and ultimately protect the U.S. consumer's interest, respectively requested.

Thank you.

MR. BISHOP: Thank you, Ms. Mao. Our next witness is Heidi McAuliffe with the American Coating Association. Ms. McAuliffe, you have five minutes.

MS. MCAULIFFE: Thank you. Good morning, it is our privilege to be here and to discuss this matter of concern for the manufacturers of paint and coatings products.

The coatings industry in the United States is 290,000 employees, our product shipments equaled over $30 billion in 2016, which was up 10 percent from 2015.

Our payroll in the industry is about $14 billion, rising 6.4 percent over the last year, and this compares with about 3 percent for the entire private sector. Jobs in the coatings industry pay anywhere from $47,000 to $72,000. That's in our manufacturing sectors.

China is our third largest export market at a value of about $94 million for the coatings industry.

The American coatings industry strongly supports free trade and believes that the tariff approach being undertaken is harmful not only to the U.S. coatings industry, but to the broader U.S. manufacturing base as well.

Instead of pursuing the blunt instrument of tariffs, we encourage the administration to pursue more precise and strategic approaches such as enforceable, bilateral trade agreements to address the issues facing manufacturers with China.

And specifically, we are concerned with the harmonized tariff code subheadings beginning at 3901 all the way through 3914. Several of our panelists have already addressed some of those harmonized tariff codes, but those are the ones we're specifically interested in.

The final list includes over 1100 product lines and a significant number of these are chemicals used in coatings, adhesives, inks, and other formulated specialty coating products, such as binders.

These are coatings resins. These resins are largely captured under the tariff lines that are incorporated in Annex C. While the materials that fall under this chapter are characterized as plastics and articles thereof, they are neither plastics nor plastic articles in the commonly understood sense of that term.

They are more properly characterized as polymers and are generally shipped in liquid medium and subsequently formulated along with pigments, solvents, and additives to produce our industry's key coatings products.

Resins are, in fact, one of the most important raw material inputs in coatings formulations. They comprise about 40 percent of the raw material cost.

The paint and coatings industry in the U.S. is a strong, export-oriented industry that is quite competitive internationally. Many manufacturers in this industry are small and medium-sized businesses.

The latest trade data published by the International Trade Commission's Interactive Tariff and Trade Data Web indicates that the trade of the primary categories of coatings generated a positive trade balance of $1.33 billion.

Those are the harmonized tariff codes of 3808 and 3809, and this is out of an overall product shipment of approximately $25 billion.

So the international competitiveness of the American coatings industry is a product of strong innovation, manufacturing efficiency, and robust supply chains.

Raw materials comprise approximately 75 percent of the direct cost of manufacturing coatings and price inflation affecting these inputs is a matter of great concern for our industry.

ACA believes that imposing tariffs of this magnitude on such chemicals could, as a practical matter, largely exclude these affected products from the market.

The disappearance of even a relatively small portion of the supply of these polymers would inevitably result in upward pricing pressure on this key input.

The actions proposed by the U.S. Trade Rep in this regard could impose costs on the U.S. coatings industry that will not only harm consumers and end users, including the downstream manufacturing customers, but render it less competitive internationally.

The outcome could quite easily erode or dissipate the current strong trade position we enjoy, leading to decreased exports of coatings and/or increased imports.

We understand that the materials included in the first two rounds of this action were identified for additional tariffs based on their importance within China's Made In 2025 plan, which aims to advance Chinese high- technology industries such as robotics, aerospace, industrial machinery, and automobiles.

The list of affected chemicals within the harmonized tariff Chapter 39, at least insofar as they are used by our industry, are largely chemicals manufactured using very mature processes.

As such, imposing tariffs on this raw material category would not appear to support the Trade Rep's objectives concerning the Made In China 2025 plan.

Moreover, these products, as used by our industry, are not plastics or articles in the ordinary meeting.

The broad and unnecessary inclusion of these tariff subheadings could effectively inflate unwarranted collateral damage on the coatings industry and we ask that you reconsider your decision on these.

Thank you.

MR. BISHOP: Thank you, Ms. McAuliffe.

Our next witness is Al Pape of Shamrock Technologies Incorporated. Mr. Pape, you have five minutes.

MR. PAPE: Thank you. Good morning, my name is Al Pape, I'm the President of -- I've never been told I'm quiet. I'll start over.

Good morning, my name is Al Pape, I'm the President of Shamrock Technologies and I'm testifying today in opposition to the proposed tariffs on fluoropolymers and polytetrafluoroethylene, which is more commonly known as PTFE.

Shamrock Technologies is a U.S.-based manufacturer headquartered in Newark, New Jersey. Our company was founded over 75 years ago in New York City.

We design, manufacture, and supply PTFE micro-powders and other specialty products for a wide range of applications, including ink, coatings, lubricants, and thermal plastics.

We have four manufacturing facilities in the United States, one in Newark, New Jersey, and three located in Henderson, Kentucky. We also have a manufacturing facility in China and one in Belgium.

In total that's six manufacturing facilities across three continents, totaling more than 500,000 square feet.

However, by far, our largest facilities are at home in the United States. The three manufacturing facilities in Henderson, Kentucky account for almost 300,000 square feet.

We market and sell our products in the United States, Europe, Asia, and South America. Greater than 300 of our customers are right here in the U.S. and we employ more than 200 people in the United States, and inject approximately $35 million annually into the U.S. economy.

We invest between $2 million to $5 million in capital improvements per year in the United States and spend over $4 million on U.S.-generated energy. We pay taxes approaching $10 million in the United States and in the communities where our plants are located.

Shamrock is the global leader of the manufacture of PTFE micro-powders and we are the world's largest recycler of PTFE. PTFE micro-powders are used as additives in thousands of products.

The micro-powders add lubricity, improve the wear characteristics of the base materials such as thermal plastics, grease, and coatings. We offer the widest range of products from both virgin and post-industrial scrap PTFE.

We buy and sell PTFE scrap, resin, and process material in China. We also buy PTFE scrap from processors in the United States and around the globe.

The ability of U.S. processors to buy from PTFE at competitive rates is critical to support our model of U.S.-based growth and manufacturing. Using our recycling technology, we convert PTFE scrap into micro-powder.

These recycling processes are critical to environmental stewardship as we have successfully demonstrated that PTFE is recyclable.

Our processes keep greater than 5 million pounds of PTFE resin per year from winding up in landfills.

Since PTFE scrap can neither be incinerated or dumped as a waste, this is a critical process to not only the environment, but also to create jobs and value for the U.S. economy and the communities and the families of our employees.

We believe the proposed tariffs on PTFE and fluoropolymers will result in disproportionate harm to U.S. interests.

Today, the PTFE and fluoropolymer industries in the United States are healthy and competitive, but the proposed tariffs threaten the competitiveness of the U.S. and these industries.

The tariffs will result in an imbalance in the ecosystem of PTFE and result in PTFE scrap, which is critical for our business.

It will force key processors of PTFE like Shamrock to focus our investment and growth plans outside of the United States, where we can achieve the returns required to justify capital expenditures.

We are a U.S.-based company and proud to make greater than 75 percent of our products in the U.S. If these tariffs become effective, that will have to change and it cannot be quickly reversed.

Only a handful of U.S. companies are producing PTFE and there is insufficient U.S. production to meet U.S. demand. The imposition of tariffs on these products will only exacerbate these prices and availability of supply.

Furthermore, we expect that the U.S. will soon make significant investments to replace our aging infrastructure.

Much of the investment will depend on fluoropolymers such as PTFE, as these products are widely used in the construction industry. For this reason, many companies are investing in the fluoropolymer industry in the U.S.

If tariffs are imposed to increase the price of PTFE and fluoropolymers from China in the United States as compared to the rest of the world, the U.S. fluoropolymer industry will suffer.

The imposition of tariffs on these products will also make it easier for foreign companies to compete with U.S. producers of PTFE and fluoropolymers.

U.S. suppliers and processors of these chemicals simply need to be competitive and the proposed tariffs will have the opposite effect.

Finally, the imposition of tariffs on these products would not be effective to cause China to change it's unfair and discriminatory practices.

Although we have a manufacturing facility in China, we have not been required by any entity in China to share any IP or our research and development.

We have not been required to enter into restrictive licensing agreements, foreign joint ventures, or otherwise limit competition. This concludes my testimony and I thank you for the opportunity to be here today.

MR. BISHOP: Thank you, Mr. Pape. Our

final witness on this panel is Charlie Souhrada with the North American Association of Food Equipment Manufacturers. Mr. Souhrada, you have five minutes.

MR. SOUHRADA: Thank you. Members of the Trade Policy Staff Committee, thank you for the opportunity to testify today.

I'm Charlie Souhrada, Vice President of Technical and Regulatory Affairs for the North American Association of Food Equipment Manufacturers, or NAAFEM.

NAAFEM is a trade association of more than 550 food service equipment and supplies manufacturers providing products for the food-away-from-home market.

These businesses, their workers, and the products they manufacture support the food service industry, which includes school cafeterias, colleges and universities, correctional facilities, hospitals and elder care, lodging and casinos, corporate cafeterias, supermarkets, convenience stores, and restaurants;

more than 1 million locations throughout the U.S. and countless more throughout the world.

In brief, NAAFEM Members provide the tools the food service industry needs to serve safe, flavorful food to their customers.

Since 1948, NAFFEM has represented North American companies that manufacture the highest-quality food service equipment and supplies on the planet, ranging from primary cooking equipment such as stoves and ovens to storage equipment such as refrigerators, freezers, and ice machines, along with preparation equipment like heated cabinets and racks, and serving equipment including tables, cookware, flatware, and beverage dispensers.

NAFFEM's Members include a range of small, medium, and large businesses throughout the United States. However, the majority of our Members are small and medium-sized businesses.

In fact, more than 60 percent of Members have annual sales of $5 million to $10 million and qualify as small business according to the Small

Business Administration.

Many are family-owned and play an instrumental role in providing their companies vital, high-quality U.S. manufacturing jobs for thousands of American families, fueling the success of the U.S. economy.

We're happy to report that USTR's removal of certain products from Annex A had a positive impact for many of our Members.

For example, equipment for making hot drinks or for cooking or heating food was removed from Annex A, providing much needed relief at a time when these businesses are struggling to address steel and aluminum tariffs which have already driven up material costs on domestic steel by 30 to 40 percent.

We're appearing here today for many of the same reasons that we submitted comments during the last round.

Annex C contains many items of concern to our Members, and just like the first round, we supplied a detailed list of the tariff numbers of concern with our request to appear, dated June 29, 2018, and in our formal comments that were filed earlier this week.

Like certain products on the previous list, imposing tariffs on products included in Annex C has the potential to harm NAFFEM Members either by targeting material inputs, tools, or the equipment used on the shop floor.

For instance, you've already heard a lot about polymers and resins, but also tubes, pipes, hoses, drilling machines, electric motors, and electronic processors are included in this annex. These items are used by NAFFEM Members to manufacture some of the equipment supplies cited earlier. While these Annex C products may be available from other countries, our Members rely on complex manufacturing supply chains that have taken years to develop.

Rebuilding these supply chains drains resources and will take years to source around these tariffs. This adds a regulatory burden the administration promised to eliminate last year.

It's important to point out that the items in our list are not high-tech. They are not the sort of items that benefit from China's intellectual property practices, nor do they contribute to China's high-tech ambitions.

Instead, we believe these tariffs are directly contrary to the administration's stated priority of increasing good-paying U.S. manufacturing jobs.

We believe that smart, economically competitive sourcing from global suppliers including those in China allows manufacturers to control costs, which protects and even expands U.S. jobs.

While we understand the President's intent is to address China's unfair trade practices, we must do so in a way that does not include tariffs that ultimately hurt American workers, U.S. manufacturers and consumers.

We will supplement this testimony as necessary with a post-Hearing rebuttal submission but on behalf of NAFFEM Members, thank you for the opportunity to testify today and I look forward to any questions.

MR. BISHOP: Thank you, Mr. Souhrada. Mr. Chairman, that concludes direct testimony from this panel.

CHAIR BUSIS: We will have a 30-second break and then we will have our questions.

MS. ROY: Good morning, my name is Tracy Roy, I'm from the Department of Homeland Security. This question is for Mr. Baillie.

You indicate that medical implantable devices are one of the common end uses for the fluoropolymers resins on the draft tariff list.

Would you expect a tariff on these substances to have an impact on availability of medical implantable devices for Americans?

MR. BAILLIE: Currently, there are two U.S. manufacturers of fluoropolymers and one of those U.S. manufacturers refuses to sell product into medical implantable applications.

These applications take many years and huge investments just even for a change in raw material source. So, yes, I think there's a lot of concern.

I'm not going to get into any proprietary information from any previous employers I've had, but does that answer your question, what I just said?

MS. ROY: Yes, it does, thank you so much.

CHAIR BUSIS: Mr. Baillie, could you also address why it is that there are no current or adequate U.S. sources of that product, the fluoropolymer resins?

MR. BAILLIE: Yes, so the two U.S. manufacturers, the way they're set up is to make very large volumes of product very efficiently so they have a minimal number of SKUs. And so they can't make small volumes, they're just not set up to make smaller volumes.

So, the kinds of applications that would require smaller volumes and anything really customer-tailored, the U.S. manufacturer is really not set up to do that.

CHAIR BUSIS: Mr. Bradley, thank you for your testimony. Do we understand or do I understand that the harm that you're addressing isn't directly from the U.S.-proposed tariffs but the contemplated response of China on imposing tariffs on the polyols that we produce and export. Is that the gist of it?

MR. BRADLEY: I think the strongest part of my argument is, yes, the retaliatory tariffs would injure U.S. producers significantly.

There would be damage if there was just tariffs on the imported material from China, but it's larger in the other direction.

MR. SULBY: A question for Mr. Sturgeon, you mentioned that there are other U.S. suppliers for polyols.

Could you please provide any explanation for why those U.S. suppliers are not sufficient to offset Chinese supply of polyols?

MR. STURGEON: Polyether polyols are used in a wide variety of polyurethane applications. I highlighted the impact on one specific application which is the appliance manufacturers, refrigerators, and freezer manufacturers.

In that particular application, the U.S. suppliers of polyether polyols typically do not offer polyether polyols alone as a standalone product. They also require their customers to purchase the accompanying isocyanate as a whole package.

This has been a problem for the appliance manufacturers of the United States because with respect to isocyanates, there is a limited supply, relative limited supply, in the United States. North America is a net import region of isocyanates.

So because of that trade practice of U.S. producers, the American manufacturers of appliances have gone off shore to be able to purchase separately the polyether polyols from the accompanying isocyanates, which together react to produce the polyurethane insulation.

In addition, much of the IP4 -- IP's

the wrong word, much of the know-how for advanced insulation in appliances actually comes from China and so China is by far the world's leader in refrigerator and freezer manufacturing.

So the American appliance manufacturers have gone to China for that know-how and wanted to bring that technology to the U.S. manufacturing base.

MS. PETTIS: Good morning, Maureen Pettis, Department of Labor. This question is for Ms. Cumminsky. You indicated in your testimony that the chemicals included in the HTS lines you mentioned have been used in medical applications. Would you expect a tariff on these chemicals to have an impact on the availability of these medical products?

MS. CUMMINSKY: Yes, any medical products that you have, any pharmaceuticals, there's a long qualifying process that you have to go through to get something, to be able to put it out on the market.

So, if you change out the raw materials

because you have been importing a product from China and now you have to find another source for it, well, first, you have to qualify that source and then you have to qualify it in the product. And it's a lengthy process.

MS. PETTIS: Thank you very much.

MR. BLAHA: Thank you. I had a question for Ms. Mao. The impression I got from your testimony was that China was really the dominant supplier of chlorinated polyethylene.

And you also indicated that it would take, I think, a number of years to actually increase capacity elsewhere outside of China.

Could you elaborate on why it would take so long? What's the primary feedstock or input into that type of product?

And then I guess just another question is would it be advantageous to have a diversified supply outside of China, for instance in the United States?

MS. MAO: Could you please say one more time your question? I'm trying to understand your question completely. Can you say it one more time, please?

MR. BLAHA: Sure, sorry. I understood from your testimony that it would take a number of years to increase production of the chlorinated polyethylene outside of China, new production.

I was wondering if you could elaborate on why that was. Would the specific barriers increase production? Is there a feedstock that's rare that can only be sourced in China or anything like that?

I'm just trying to understand what the multi-year capacity constraint is there.

And then I guess as a second question, if China really is the only supplier, would it not be helpful to diversify supply outside of China to have, for instance, the United States as an alternate supplier of this product?

MS. MAO: Okay, thank you.

Okay, first question, the answer is because the CPE in that product that you have to produce, to build up the plant you need a permit, you need to select a location, you need it designed. And for any chemical manufacturing buildup, it costs a lot of time.

Plus, there's two ingredients, main ingredients, for CPE. One is polyethylene and another is chlorine, and chlorine is a very hazardous material.

So ideally, you need to have two polyethylene and also chlorine nearby the CPE manufacturer.

So, therefore, to reduce the hazardous material, transport to the long distance, that is why it causes a longer time for the chemical plant, especially for hazardous material.

That's one question to you. Did I answer your question for that?

MR. BLAHA: Yes, thank you. I guess my understanding was there's a lot of regulatory --

MS. MAO: The difficulty is for the hazardous --

MR. BLAHA: Thank you.

MS. MAO: You're welcome. The second part of the question you're asking is -- say it one more time, the second question?

MR. BLAHA: My understanding was that China is really the only real producer for this?

MS. MAO: Yes.

MR. BLAHA: Would it not be helpful to all users of this to have an alternate supplier outside of China?

MS. MAO: This relates to the first part. because the CPE, as I say, under this code, the CPE is usually admitted applications, like rubber industry hose and wire cable everywhere, and also the vinyl siding.

So, the demand for the CPE product is very large. Therefore, because the first part of my answer to you is the difficulty and also there's a timing concern to set up the CPE and also the chlorine and also the polyethylene related to it.

So, therefore, outside of China if you want to set up the plans, it is the same concept.

And also, during a time when people try to put the plans over there and the U.S. companies and also consumers are suffering. Because other countries, besides the U.S., they do not have extra tariff.

Plus, I mentioned in my testimony that for any company, especially for the rubber industry, changing to different or alternative materials, they cost -- it's very costly for the testing to approval, especially for automobile.

They have a P-pack testing mode that is very costly and takes a very long time. Even the plans of moving six inches they have to requalify.

Did I answer your question? Thank you.

MS. MAIN: My question is for Ms. McAuliff from the American Coatings Association.

Ms. McAuliff, in your testimony you noted that raw materials comprise approximately 75 percent of the direct cost of manufacturing coatings.

My question is are there non-Chinese

sources of raw materials used in paint and coatings formulations that could be substituted?

MS. MCAULIFFE: Thank you. You're correct, we testified that approximately 75 percent of the direct cost of manufacturing is the cost of raw materials.

Whether or not those materials, well, there are materials that are sourced from China, there are materials that are produced by U.S. manufacturers.

And quite honestly, as a representative of the industry as a whole, I'm not going to be able to hone in down on the ingredients for different chemicals.

I'm going to have to ask our manufacturer specifically to respond to that question, and we plan to do that in our rebuttal testimony.

So, I'm sorry I can't be a little bit more specific right now.

MR. BLAHA: Thank you. I had a question for Mr. Pape.

I think that you mentioned there were only a small number of U.S. PTFE producers and I was just curious, specifically given some of the infrastructure uses I think you had alluded to in your testimony, if there was a rationale why there wasn't more U.S. production of the product?

MR. PAPE: I think I'd refer back to Mr. Baillie's comments earlier, that PTFE and fluoropolymers, the producers that are set up in the United States have certain types of materials they can manufacture.

There are certain let's say grades or specific types of PTFE that are currently not produced in the United States.

So, for certain products we produce, we have to go outside the United States to source those materials, specifically some of those that are very readily available in China.

MR. BLAHA: And I guess another question, if I could, did I understand correctly from your testimony that the scrap is basically a feedstock for your production?

MR. PAPE: Right.

MR. BLAHA: And is China the main source of scrap in this product?

MR. PAPE: It is not, however, the folks who are processing PTFE, we're buying post-industrial scrap so this isn't a curbside plastics recycling kind of concept.

It's from folks who are actually processing, they're making the products that Mr. Baillie mentioned.

They might be making tape, they might be making medical tubing, they may be making these other products that are made out of PTFE, and we're buying their scraps.

So we're sourcing a great deal of that scrap from the U.S. There's not enough in the U.S. to satisfy our demands for those materials so we're forced to source from around the world, and China is one of those sources as well.

Thank you.

MS. ZUCKERMAN: Mr. Souhrada, in your statement you note that certain Annex C products may be available from other countries but that it could take years to source around these tariffs.

Can you further elaborate as to what your Members would need to do in order to source these products from countries other than China?

MR. SOUHRADA: Thank you for the question. That's a very complex answer, unfortunately, because of the variety of different products that our Members make.

With 550 companies involved, as you might ascertain, the variety of different products that they import or access from china makes it very difficult for us to pin down.

Anecdotally, their supply chain could take approximately five years to rebuild and that also would include the potential for retesting or recertification from some of the safety or sanitation organizations such as CSA for gas, Intertek, NSF for sanitation, or Underwriters, just to name a few.

So not only do some of these products impact the performance of the equipment but it also could impact the sanitary value that we have to offer.

MS. ZUCKERMAN: Thank you.

MR. SOUHRADA: You're welcome.

CHAIR BUSIS: Mr. Bishop, that concludes this panel, thank you.

MR. BISHOP: We release this panel with our thanks and we invite the next panel to please come forward and be seated. And if the Members of Panel 3 would please come forward and be seated in the witness holding area?

Will the room please come to order? Our first witness on this panel is Rick Firehammer with Universal Electronics, Incorporated. Mr. Firehammer, you have five minutes.

MR. FIREHAMMER: Good morning, my name is Rick Firehammer and I'm the Chief Legal Officer of Universal Electronics, Inc. Thank you for allowing me to testify today.

UEI is a U.S. publicly-traded company founded in 1986. We develop control and sensor technology solutions and manufacture a broad line of pre-programmed universal remote-control products, AV accessories, intelligent wireless security, and smart home products.

Our U.S. customers include, among others, Comcast, Dish, Direct TV, Bose, Best Buy, Walmart, Ring, Trane, and Microsoft.

UEI has approximately 300 employees in the U.S. with more than one-half of them working in high-paying engineering and research and development roles.

The vast majority of our remote-controlled products that are used by U.S. consumers every day are manufactured in our China facilities and factories and that we acquired in 2010.

The proposed action under Section 301 of the Trade Act would impose additional duties on the importation of those products into the U.S. These products are classified under Subheading 8543.70.99.

Imposing additional duties on these products would not be practicable or effective to eliminate China's acts, policies, and practices. It would cause a disproportionate economic harm to U.S. interests including small and medium-sized businesses, and consumers.

It would have a serious and significant negative impact on UEI's U.S. operations and honorability to continue to develop new and innovative projects and technology.

It would negatively impact the quality of remote-control products available in the United States generally.

First, all of our intellectual property is developed and owned by us and protected in the United States and elsewhere via patents and trade secrets.

All of the engineers who create, design, and develop our products and our award-winning technologies work in one of our four California development centers.

Third parties, including those located in China, are never given access to these core assets, making it virtually impossible for our intellectual property to be stolen or used improperly in China.

For these reasons, imposing additional duties on these products would not be practicable or effective to eliminate China's acts, policies, and practices.

Second, according to Nielsen, over 96 percent of all U.S. homes have at least one television on which they watch programming provided via broadcast, cable, satellite, or broadband Internet connection.

We anticipate that our customers, those who provide those programming, will pass on the additional costs caused by the proposed additional tariffs to the U.S. consumers in the form of higher subscription fees. This will result in a disproportionate economic harm to U.S. interests.

Third, additional duties on these products would have a serious and significant negative impact on our U.S. operations, resulting in the potential need to terminate our highly-paid, U.S.-based engineers and move many of those positions outside of the United States to help offset product cost increases attributed to those proposed additional tariffs.

Near-term, we anticipate the reduction in our U.S.-based creative talent will negatively impact our ability to develop new and innovative products and technologies.

Within our industry, UEI is the only business that maintains a U.S.-based operation and ours is significant. All of our competitors have entirely off-shored their operations while maintaining a small sales presence in the U.S.

We strongly believe that our investment in U.S.-based creative talent has been the primary driver for our business success and market share leadership.

Next, the additional duties imposed on our products would have a significant negative impact on UEI generally as our remote-control products be manufactured in our China factories would be subject to the proposed additional tariffs.

These proposed additional tariffs would actually provide a competitive advantage to our competitors as they manufacture similar products outside of China, namely Korea, Taiwan, Vietnam, Indonesia, and Japan. None of them perform any engineering or research and development in the U.S.

We believe it likely that our customers would turn to those non-U.S. competitors to purchase remote-control products as they would not be subject to the proposed additional tariffs. This would have a serious and significant impact, negative, on UEI.

Finally, the proposed additional duties would negatively impact the quality of remote-control products available in the U.S. generally. The products we manufacture in China offer superior quality to similar products manufactured by our competitors as none of them offer the features and functionality that is available in our products.

For example, today our QuickSet technology is considered the industry standard in AV system control and has been designed into platforms and applications that represent nearly 40 percent of the worldwide smart TV market.

Also, in August of last year, we were awarded a technology and engineering Emmy by the National Academy of Television Arts and Sciences for our remote-control, voice recognition technology. None of our competitors can say that.

For these reasons, UEI respectively requests that Subheading 8543.70.99 be removed from the list of tariff headings potentially subject to the proposed additional 25 percent duties, pursuant to Section 301. This concludes my testimony, thank you again for allowing me to testify and I look forward to any questions.

MR. BISHOP: Thank you, Mr. Firehammer. Our next witness is Sage Chandler with the Consumer Technology Association. Ms. Chandler, you have five minutes.

MS. CHANDLER: Thank you. Thank you for the opportunity to testify today. I am Sage Chandler, the Vice President for International Trade at the Consumer Technology Association.

CTA represents over 2200 Member companies. They include manufacturers, distributors, developers, retailers, integrators. Eighty percent of our companies are startups and small businesses, as defined by the Small Business Administration.

Our overall trading relationship with China is very important to our Member companies. There is a global supply chain that most of them rely upon to compete, to sell. Our Members identified 46 HTS codes on the $16 billion list that would have a negative impact should a 25 percent tariff be imposed upon them.

Most of our respondents, especially small companies, noted that they would not be able to switch sourcing from China, or if they would do so, it would come at significant cost. Oftentimes, the switch would not be to the U.S.

As with USTR's original list that was imposed on July 6th, our Members are still concerned that additional tariffs would put them at a competitive disadvantage relative to their competitors from other countries that would not be subject to tariffs.

Tariffs would harm those industries that they seek to protect. For example, the thermometer tariff line under 90251980 covers a broad range of consumer goods. Tariffs on that line will affect nearly every American household as Americans purchase about 17 million thermostats each year. There are thermostats now already subject to a 25 percent tariff; that took effect on July 6th.

The common consumer products captured under that tariff line include outdoor thermometers, kitchen meat thermometers, the thermometers that take the temperatures of sick people. They'll also hurt the retailers that sell those products and the small companies that integrate them.

An additional example on the Annex C list, which was heavy in both semiconductors and the machinery that makes them, China represents just five percent of the global semiconductor market and the U.S. is the world's leader for market share. Most semiconductors we import were actually made in the United States. Approximately 90 percent of the research, design, engineering, the intellectual property comes from the U.S. and they're just shipped to China for final low-end assembly and packaging and then shipped back in to the U.S.

So having tariffs on both the products that make the semiconductors as well as the U.S. companies that are manufacturing the vast majority of the value of them places a double jeopardy on our companies.

It also provides little incentive for new semiconductor manufacturers to locate in the United States. Costs of these tariffs would be passed downstream to American consumers and to other companies that are integrating and manufacturing. We've seen this repeatedly told to us by our Member companies, that as each component becomes tariffed, their cost increases and increases and increases again. The ultimate impact will be on the U.S. consumer.

We did a study with the National Retail Federation that said U.S. jobs will also bear the brunt of tariffs. It found that for every job created by tariff actions, four would be lost.

In conclusion, CTA categorically opposes the imposition of tariffs, which would cause disproportionate harm to U.S. businesses and consumers. We support actions like Section 337, sanctions, multilateral relationships, and cases at the World Trade Organization. I thank you for the opportunity to testify and look forward to questions.

MR. BURCH: Thank you. Our next panel witness is Jonathan Davis of SEMI. Mr. Davis, you have five minutes.

MR. DAVIS: Thank you very much for the opportunity to present testimony today. My name is Jonathan Davis and I'm the global Vice President for Industry Advocacy at SEMI, where I lead efforts on public policy, regulatory, and advocacy issues.

Semiconductors are essentially the brains of all electronic systems, making possible countless products on which we rely for business, communication, transportation, healthcare, entertainment, and virtually all activities of modern human endeavor.

These products have boosted economic growth, enhanced productivity, and driven innovation, and with the advent of emerging technologies such as autonomous driving, artificial intelligence, and the broader Internet of Things, this industry will continue to be central to U.S. growth and prosperity.

For nearly 50 years, SEMI has served as the global electronics manufacturing industry association. With more than 2000 Member companies worldwide, including 400 American companies, SEMI represents the full range of U.S. semiconductor technology companies including chip-makers, chip designers, equipment makers, materials producers, and subcomponent suppliers.

Our Member companies are the foundation of the $15 trillion electronics industry and this vital supply chain employs 350,000 high-skilled and high-wage jobs across the United States.

SEMI's Members spend on average 15 percent of their revenues, or more than $20 billion in nominal terms, annually on the research and development to produce important technological advancements necessary to remain competitive and enable ever-increasing productivity. Companies that provide semiconductor manufacturing technology support this activity through trade.

The industry relies on a complex and expansive supply chain that traverses the globe. According to U.S. Government data, more than 40 percent of U.S. imports from China in this sector were sourced from firms that are either U.S.-based or that are owned by U.S. companies.

This means that U.S. firms may suffer

as much or more than Chinese competitors from the blunt application of trade actions.

The U.S. is a global leader in semiconductor manufacturing technology, holding more than 40 percent of the global market share. Over the last 15 years, U.S. companies in this sector have exported on average more than 80 percent of what is produced domestically. And that's the hallmark of our industry, it's that we make it here and we sell it abroad. It's because of this dynamic that the United States has long held a trade surplus in semiconductor equipment.

In 2017, the U.S. surplus totaled $8.7 billion and looking just at trade with China, the United States has a $1.9 billion surplus in this industry in 2017. And that's more than tripled in the last five years. By sector, our industry, along with airplanes and soybeans, holds one of the largest trade surpluses with China.

Trade has ensured that the United States has remained a global leader in the semiconductor industry. In this industry, trade and innovation are intrinsically intertwined. By allowing companies to better tap into foreign markets, trade has enabled greater research and development which fuels innovation and growth.

Indeed, a change to either affects the other; without trade opportunities, innovation dries up, and without innovation, opportunities to export slow. With that in mind, we believe the imposition of a 25 percent tariff will be extremely harmful to the U.S. semiconductor manufacturing supply chain.

Nearly 30 total tariff lines, which I've included in my written statement in the proposed Section 301 tariff list, directly impact the semiconductor supply chain. We request that these tariff lines be removed from the proposed Section 301 action. Estimates from our U.S.-based companies suggest that these tariffs if implemented as proposed will cost more than $500 million annually in additional taxes and lost revenue owing to reduced exports.

This action will stifle innovation,

endanger U.S. leadership in the sector, and would put thousands of U.S. jobs at risk. I look forward to answering your questions and I appreciate your time today. Thank you.

MR. BURCH: Thank you. Our next panel witness is Bernard Feldman of American Wire Group and Classic Wire and Cable. Mr. Feldman, you have five minutes.

MR. FELDMAN: Thank you. At the outset, I'd like to thank this panel for the opportunity to testify and advocate my client's position in this matter. I am General Counsel to these small companies and I will give you a brief overview as to how this proposed tariff will negatively affect our client's ability to continue in business.

My clients are small U.S. importers of electrical wire and cable. We service the utility and renewable energy sectors on a direct basis. My clients honor commercial and industrial markets exclusively throughout the electrical distribution channels.

We request that the bare and insulated electrical wire cables classified in HTSUS 7614.10.10, 7614.90.20, 8544.49.10, 8544.4920, and 8544.60.60 be excluded from the list of products subject to the Section 301 tariffs.

Firstly, my client, as I say, is a small company. We presently employ around 50 people. We have in recent times expanded that so we will increase that by at least 50 percent in the immediate future.

We have opened up distribution centers in Los Angeles, a 100,000 square-foot facility which can accommodate $10 million worth of wire and cable. We have also recently concluded a lease in New Kingstown, Pennsylvania, for 200,000 square feet, which will double the amount of availability that we can store for immediate sale and distribution.

U.S. production of wire and cable products is dominated by a few multinational players. To name them, Nexans, General Cable, Southwire, LS Cable. General Cable and Nexans is a French company. General Cable was purchased by an Italian company. Southwire is U.S.-owned.

LS Cable is a Korean company. They restrict their product production to major distributors whose parent entities are also foreign-owned. For example, Rexel and Sonar, both French-owned, are distributors of these producers.

Small distributors like my clients will not be selected by these domestic manufacturers as their distribution partners. If the proposed tariffs are implemented, distributors outside their network will have no product to sell and, therefore, will be forced to close.

The proposed tariffs -- and I believe you'll hear later from one of our competitors, Priority Wire, they've already implemented the tariffs -- would lead to hiring freezes according to their submission. The domestic demand cannot be satisfied by domestic production. Shortages will mean an uproar in prices, longer delivery times, and an inability to provide disaster relief.

Most recently, we were called upon to provide wire to Puerto Rico to help them reconstruct their infrastructure, and since we had product available, we were able to deliver that fairly quickly. And we were a part of that rehabilitation; if we were not around, the delay in delivering wire would be manifest.

As I said before, and I don't want to repeat, the domestic production cannot meet U.S. demands. The tariffs will give a handful of domestic manufacturers monopolizing powers.

We believe that, unfortunately, these tariffs, while well intentioned, the application will be ill conceived. The natural disasters, as I say, was one of our recent highlights. I believe and we believe the proposed tariffs will force the closure of many small competitive U.S. companies and result in higher prices for electricity to the consumers at large.

I thank you for this brief opportunity, I will supplement it with my additional submissions later on. Thank you so much.

MR. BURCH: Thank you. Our next panel witness is Robert G. Strahs, II, of Priority Wire and Cable, Inc. Mr. Strahs, you have five minutes.

MR. STRAHS: First I want to thank the Committee for the opportunity to appear and testify. The decisions that this Committee reaches will have significant impact on our company and our employees.

Priority Wire and Cable is a medium-sized business with 425 direct employees working from our facilities in 29 states across the U.S. In addition, we work through 43 manufacturer representatives with employees in all 50 states.

We offer competitive pay, bonuses, profit sharing, and an unheard of fully-funded healthcare policy for our employees, plus we pay millions of dollars of commission to our reps annually.

We are celebrated our 25th year in business and we believe we are a great example of the type of company that we need to have more of in the United States.

Our ability to provide a healthy compensation package has been the result of hard work by our dedicated employees and building a service model that is unsurpassed in our industry. It is not the result of intellectual property theft or low prices.

We maintain massive inventories of a wide variety of wire and cable from domestic and foreign partners, including China, with our 14 warehouses throughout the U.S.

We provide same-day or next-day service to distributors throughout the U.S. to allow them to supply their customers to propel our construction growth and maintain a strong electrical grid.

In 25 years our domestic competitors have not been able to match that service and left a void in the market which we have filled yet with the previously-issued $34 billion tariff package that included many of our products and the potential for additional tariffs in the $16 billion Annex C package there is a great risk for our company's future and the employment of 400-plus employees.

The first set of tariffs essentially create a monopoly by levying a 25 percent tariff under Code 8544.49.30.80 on our central office power supply cable as there were only two approved companies that can supply this cable to the likes of AT&T, Verizon, Nokia, and other critical telecom infrastructure companies.

The second set of tariffs, which includes HS Code 8544.60.60 would likely cause wire shortages of a critical cable type for utilities in California.

In the aftermath of the devastating wildfires throughout California which are reported to have burned over 1.3 million acres in 2017 alone the leading cause has been determined to be electrical power problems.

Just Google "California Fire Cause" and you will find many articles pointing to power lines which have historically been bare wires being the cause of many of the fires.

One solution that a task force of utility engineers is recommending is a heavily insulated wire to replace the bare overhead wires in place today.

The installation can prevent the arcing or sparks that happen when bare conductors come in contact with another conductor or ground pathway due to overgrown vegetation, severe weather, or downed power poles.

Just one of the large California utilities has told us that they have up to 10,000 miles of bare cable that needs to be replaced with insulated cable.

They have told us that their supplier, one of two domestic companies that we believe can produce this wire, said they do not have the capacity to provide the wire in the timeframe desired.

By the way, one of these cable suppliers is also reportedly going to testify in these hearings that Tariff Code 8544.60.60, which includes this type of wire, needs to be on the list.

I am sure it is not their intent to hurt the utility sourcing opportunities, but adding this code to the new list of tariffs could slow the work that needs to get done to prevent fires that have caused loss of life and property.

While we request that Tariff Codes 7614.10.10, 764.90.20, 8544.49.10, and 8544.49.20 be removed from the list to help preserve our employees' jobs throughout the United States, we strongly urge the Committee to consider removing the tariff code 8544.60.60 from the list so as to not reduce the availability of key utility cables needing immediate replacement.

As previously noted we believe there are only two domestic producers of making this cable, neither of which have the capacity to supply the market what it needs.

Thank you for your time and the opportunity to speak and I hope you consider our recommendation.

MR. BURCH: Thank you. Our next panel

witness is Charlie Murrah of Southwire Company, LLC. Mr. Murrah, you have five minutes.

MR. MURRAH: My name is Charlie Murrah and I am the President of Power Systems and Solutions for Southwire Company.

Southwire is North America's leading manufacturer of wire and cable used in the transmission and distribution of electricity. Southwire is a family-owned business headquartered in Carrollton, Georgia, with 7,500 employees.

I previously testified before you to request that certain electric cable products that are key components of the U.S. electric grid be added to the list of products subject to duties under the Section 301 investigation.

These include high voltage bare aluminum cables and medium and low voltage copper and aluminum cables. I have listed the specific subheadings for each of these in my written submission.

I would like to extend thanks on behalf of all employees at Southwire for the

Administration's decision to include three of the six cable products in Annex A of the Section 301 list. For this we are very grateful.

There are early indications that the inclusion of these three products on the list has allowed Southwire and other U.S. producers to achieve price levels that maintain profitability. We have certainly not seen any shortages of material in the market.

The other three cable products that Southwire requested be added to the 301 list are now included in Annex C. I am here to ask that you complete the job by imposing duties on the remaining cable products contained in Annex C.

As the Department of Commerce noted in its January 17, 2018, Section 232 report, aluminum transmission cables power the nation delivering electricity from power generation facilities across long haul transmission grids for the distribution at the regional, state, and local level.

The high and medium voltage cable

products included in Annex C are used to transport electricity long distances ensuring a reliable and secure supply of electricity.

The Chinese government has engaged in a series of policies designed to promote exports of these products and enable Chinese producers to capture significant global market share.

The U.S. International Trade Commission Section 332 investigation and the Department of Commerce's Section 232 report outline many of the policies used by the Chinese government to promote a large export focus downstream aluminum industry.

In addition, advanced basic materials necessary for core infrastructure, such as the electric grid or one of the sectors targeted in the China 2025 plan, as the Administration is aware China's 2025 plan calls for China to develop dominant domestic producers which will then capture international market share in these sectors.

Chinese manufacturers are already successfully executing the China 2025 strategy in these critical infrastructure projects.

For example later this afternoon you will hear from ZTT International. A review of ZTT's own website will show that they have been heavily involved in the development of critical infrastructure in China and are now targeting the U.S. electrical grid.

In fact, ZTT has highlighted the Barren Ridge Renewable Transmission Project, a 62-mile project in Southern California as an example of its success targeting the U.S. electrical grid. This was a project Southwire unsuccessfully bid on.

Imports of high and medium voltage cables from ZTT and other Chinese producers have increased and are sold at prices that severely undercut U.S. prices.

In our confidential written submission to the earlier hearing we provided you with data that demonstrate how Chinese producers persistently undersell Southwire by substantial margins.

The problem is further exacerbated by the fact that the primary aluminum that Southwire uses as an input to produce cables is covered by the 232 measure but the scope of 232 does not include cables in their finished form.

The hole in the scope of Section 232 and existing 301 tariffs further incentivize Chinese producers to increase their low price shipments of downstream aluminum cables, which poses a significant threat to the existence of a substantial portion of our business.

If the holes in the scopes of 232 and 301 are not closed Southwire will likely be required to reduce its workforce by as much as 35 percent, or 2,500 people.

It will also likely be required to shut all or part of seven of its U.S. manufacturing facilities located in six states. The solution to the problem is simple, we urge the Administration to impose 25 percent 301 tariffs on the remaining cable products included in Annex C.

Thank you for your time and attention

to this important matter. I will be happy to answer any questions you may have.

MR. BURCH: Thank you. Our next panel witness is Craig Updyke of National Electrical Manufactures Association. Mr. Updyke, you have five minutes.

MR. UPDYKE: Good morning, Mr. Chairman and members of the Section 301 Committee.

Thank you for the opportunity to provide the following remarks on behalf of the National Electrical Manufacturers Association, NEMA, on the proposed determination of action pursuant to Section 301 to address China's acts, policies, and practices related to technology, transfer, intellectual property, and innovation.

My name is Craig Updyke and I serve as NEMA's Director for trade and commercial affairs. NEMA represents nearly 350 electrical equipment and medical imaging equipment manufacturers that account for 360,000 American jobs in more than 7,000 facilities across the United States.

Our industry produces $106 billion in

shipments per year with $36 billion in exports. As stated previously, NEMA shares the concerns of USTR regarding China's industrial policies and intellectual property practices.

The outcomes of discussions between the U.S. and China should assure a more level playing field through the application of clear, binding, and enforceable trade rules and compliance with international norms of intellectual property protection.

While some NEMA member companies manufacture their own products in their own factories in China, many other companies source finish goods as well as components from contractual partners in China.

In particular, many companies source components from China into the U.S. to support their U.S. manufacturing operations. Twenty-five percent tariffs were implemented on July 6th on approximately 100 product types within or adjacent to NEMA's product scope.

Placing an equivalent tariff on over

25 additional product types within or adjacent to NEMA's scope will not help support and could materially injure the global competitiveness of our industries, their manufacturing operations, and their U.S. employment base.

We have estimated that the 2017 value of China's shipments of items on List 2, or Annex C, was approximately $2 billion, or one-eighth of the entire $16 billion targeted.

Writ large of 25 percent tariffs were to be implemented as proposed. They would represent an additional tax increase on U.S. electro industry companies and their customers of at least $500 million on top of the $2 billion implemented earlier this month.

NEMA member products include equipment used widely in industrial, commercial, and residential environments. For example, affected NEMA member products include but are not limited to the following: industrial automation controls that run assembly lines and other processes, certain types of electric motors, parts of electric motors, motor overload protectors, electronic wireless dimmers and component parts, electricity meters, and insulating materials.

There is a full list of targeted products in my written testimony and also in NEMA's written comments filed yesterday.

Should the Administration decide to proceed with the application of tariffs as proposed NEMA recommends any tariffs be applied for as short of time as possible as a precursor to a negotiated outcome that addresses the Chinese practices outlined in the Section 301 report.

NEMA also urges the Administration to narrow the scope of the proposed tariff list so it does not do disproportionate harm to U.S. manufactures, including the exclusion from the tariff list of: Number one, inputs for which non-Chinese substitutes are not readily available or able to meet U.S. manufacturer or federal standards; Number two, inputs that come from wholly owned U.S. facilities within China since those reflect regular commercial decisions rather than

China's efforts to force technology transfer, and the impact would disproportionately hurt U.S. rather than Chinese businesses; and Number three, inputs from China that have a high percentage of U.S. content.

Just one example of the first case, inputs for which non-Chinese substitutes are not readily available or able to meet U.S. manufacturer standards, I have here with me some diodes, some, but not all of which, are not much larger than the head of a pin.

You might be able to see those, or maybe not. They are classified under HS 8541.10 and are inputs for a manufacturer of wireless lighting controls.

These specific components are small and individually inexpensive, but they are designed to precise quality specifications and in short are not easily replaced.

In conclusion, the imposition of broad-based tariffs, such as those proposed, is accompanied by collateral damage up and down the global supply chain that is better avoided.

If tariffs are perceived by the administration to be necessary we would hope the use of tariffs would be much narrower than proposed and very short lived, specifically if the tariffs are intended to bring China to negotiations our industry asks when can we expect those negotiations to begin.

We look forward to the administration's careful consideration of measures to bring about change in Beijing's apparently entrenched strategic, industrial, and IP policies. Thank you.

MR. BURCH: Thank you. Our next panel witness is Donald Szczepaniak of Prismview. Mr. Szczepaniak, you have five minutes.

MR. SZCZEPANIAK: Good morning. Thank you for the opportunity to appear today on behalf of Prismview and its more than 350 Utah-based employees.

My name is Don Szczepaniak and I am the President and CEO of Prismview, a proud U.S.

manufacturing company. I am appearing today to ask you to support Prismview's operations by removing LED module assemblies from the Section 301 tariffs.

To start, let me tell you a little bit more about Prismview. While you may not have heard of us I am sure you have seen our products. Our team in Logan, Utah, designs, engineers, manufactures, and installs iconic large format LED displays that adorn many sports stadiums, Times Square skyscrapers, Las Vegas casinos, and other venues big and small.

On a local level, if you have been to the new D.C. United Stadium or attended a Baltimore Ravens game you have seen our displays. Currently we are busy creating a center-hung display for the new L.A. Rams stadium. When completed in 2020 it will be the biggest, most unique, LED build in professional sports.

Prismview began operations in Logan, Utah, with about 100 employees in 2006 and has been an affiliate company for Samsung since 2015. Today we have more than 350 employees working in design, engineering, and manufacture of LED digital billboard displays.

This is exactly the kind of growth in skilled U.S. manufacturing jobs desired by President Trump and communities across America. Our employees do all the design, engineering, and drafting locally.

We are also punching, bending, and welding metal. We are building printed circuit board assemblies from raw components and we are wiring, fabricating, and installing these complex LED displays.

We also create additional skilled jobs beyond our own employees. We buy most of our plastic and metal components from U.S. manufacturers.

Our largest suppliers of LED is Cree, Incorporated, a North Carolina company that employs hundreds in their U.S. R&D engineering and manufacturing operations.

Every time we install a display we

create a cascade of opportunities on the job site for dozens of contractors, truckers, electricians, crane operators, welders, and metal workers.

To be clear, Prismview supports American jobs and American manufacturing and we fully endorse the Administration's efforts to address China's unfair practices.

Frankly, export sales are a critical growth area for us, accounting for 40 percent of our sales last year, so we know full well of the unfair trade practices facing U.S. firms.

However, like most U.S. companies we are also dependent on imports for a portion of our supply chain. A 25 percent tariff on our imports would upend our supply chain, undermine our U.S. manufacturing operations, and derail our plans for major plant investment in Utah to grow our business 400 percent over the next four years.

Ironically, perhaps the people most hurt by the tariffs are the 200-plus additional employees we had planned to hire over the same time period to support those growth plans.

LED module assemblies are basically two-sided printed circuit board assemblies with LED encased in plastic on the front and other components on the back, and they are an essential component for our displays.

Although Prismview develops and engineers our module designs in the U.S. the manufacture of these module is a simple assembly process.

We assemble modules in Utah today, but we do not have adequate capacity to meet the need of our growing company. Until we can further expand our manufacturing capability in Utah we must rely on imports.

Today we transform LED modules into sophisticated displays in Utah, but the LED components and the modules built from them are simply not available from a U.S. producer. Thus, a 25 percent tax on imports of LED modules threatens to make our Utah operations unsustainable.

While the tariff would harm Prismview it would also not be effective in changing China's unfair trade practices. Indeed, from our perspective, this proposed tariff would do the opposite.

Prismview is one of only a few outdoor LED display manufacturers in the United States. Our competition comes directly from China manufacturers who often import fully manufactured LED cabinets and displays.

In most cases our Chinese competitors' finished imports would not be subject to new tariffs. This puts us at a significant competitive disadvantage for U.S. projects.

In addition, for the 40 percent of our business that is exported the tariff would disadvantage our U.S. manufactured projects. Lastly, the tariffs would do nothing to achieve the intended goal of protecting U.S. intellectual property.

Prismview's design and engineering operations are all in the U.S. as well as our IP and access to imported LEDs and LED modules allows us to continue to maintain that activity in the

United States.

In summary, to protect and enhance quality U.S. manufacturing in Utah we respectfully request that you remove HTS Code 8542.31.001 from the list of tariffs subject to 25 percent. On behalf of Prismview I thank you for the opportunity to appear today.

MR. BURCH: This concludes this panel.

MR. BLAHA: Thank you. I guess my first question is for Mr. Firehammer. Does UEI import remote control products from any other countries?

I think in your testimony you indicated that the vast majority came from China but I was just wondering if there was other sources of supply.

And how long would it take UEI to move their production, for instance of the Chinese production to outside China?

MR. FIREHAMMER: We have a small assembly facility in Mexico that services the U.S. It principally is refurbishing used remote controls and then brings them back in the U.S.

They are not an original manufacturing site yet.

How long would it take? We would anticipate approximately an 18-month timeframe to 24 months, but then, like other panelists here, our customers would require a certification process of their own to qualify a factory as being available for manufacturing goods that they would purchase from us and that would add an additional 12 to 18 months, so you're talking anywhere from three years to four years.

MR. BLAHA: Just a follow-up question. Your refurbishment facility would that still -- I guess would any new production, for instance, be at that same refurbishment facility and would that still require the certifications that you alluded to or is that already certified?

MR. FIREHAMMER: The refurbishment has already been certified, but to become a complete factory to assemble, to manufacture and assemble a new product we would have to significantly expand the facility and we would then have to then get it certified separately, yes.

MS. MAIN: My question is for Sage Chandler from the Consumer Technology Association.

Ms. Chandler, according to your testimony imposing tariffs on the thermometer tariff line would cover a broad range of consumer goods and would negatively affect nearly every American household.

My question is are there currently any non-Chinese suppliers of these products and are any of your members currently importing from those non-Chinese suppliers?

MS. CHANDLER: Thank you. For the thermometers we haven't heard of any. I have asked a number of our companies if they are aware of the manufacturing facilities of all of those different devices.

If there are I have not been alerted to them, but, for instance, the home thermometer system that was impacted by the July 6th list, we had a small company in Pennsylvania, employs four people, intended on employing about three more this year, they have had to put those employment plans on hold because they are now being forced to shift all of their manufacturing and design to the U.S., and it should be mentioned that they have only four pieces to that system, the other three are manufactured in the United States.

So the story that we keep hearing about impact and shifting supply is that you disrupt a company's ability to choose how they do business and to do what they do best.

It's an assumption that the government knows better than these companies and these business owners do on how best to employ their resources.

And it should be mentioned that those companies, the U.S. pieces of that, are the intellectual property, the research, the design, the engineering, and it's ironic that these are the very elements of U.S. business that the administration seeks to protect in this action trying to protect U.S. intellectual property from China, but the imposition of tariffs we keep seeing will have an impact on U.S. companies' ability to keep those high-paying jobs in the U.S.

CHAIR TSAO: I just have a follow-up for Ms. Chandler. Is there a particular reason why there are no alternative sources for these type of thermometers?

Is there something particular about their manufacturing or a particular advantage the Chinese manufacturing firms enjoy, you know, if they are probably the best source to your knowledge?

MS. CHANDLER: Well, I have seen -- I have heard the story from our companies that they like to have a product that is close to the finishing part of the supply chain.

I don't know if that is actually a story on these particular thermometers, and I will follow up with you on that. I will get you all that information that I can dig up.

But to the finishing part, companies that are on thin margins, and that's something that we have seen, and the lower value, the product, the finished product, the lower the margin.

And so companies need to be close to

where, for instance, the finished product will be packaged or the other small pieces are integrated.

So that is, while I am not positive if that's the story for thermometers, I will find that out, but it's something that I have seen repeatedly mentioned to us as low cost items come into the States. Thanks.

MR. SULBY: A question for Mr. Davis. You discussed the impact of potential tariffs on components for semiconductor manufacturing. Could you provide any details on alternate sources of supply for those component parts?

MR. DAVIS: The semiconductor manufacturing supply chain is extraordinarily complex. A tool that deposits, patterns, or etches extremely thin films --

MR. BURCH: Can you please speak into the mic.

MR. DAVIS: -- can involve literally hundreds of thousands of components and each one of those, or most of those, components have to be very rigorously monitored, tested, and evaluated such that a particle less than 1/100th of a human hair cannot affect the semiconductor manufacturing process.

So the supply chain evolves through a rigorous set of qualifications. You know, I can't speak to all the alternative sources, there may be alternative sources, but they are extremely difficult to qualify and it takes a very long period of time.

In an industry where the technology changes every 18 to 24 months to stay at the leading edge the period of time required to qualify a new source would put a manufacturer at a significant disadvantage.

MR. SULBY: It would also be helpful if in your post-hearing submission if you could in particular focus on HS 8486 and if you could provide any information on the types of semiconductor and flat panel display equipment within that tariff heading that is being imported from China and any data on those imports.

MR. DAVIS: Thank you. We'll look at

that.

MS. ROY: This question is for Mr. Bernard Feldman of American Wire Group and Classic Wire and Cable. Does American Wire Group import these products from any other countries besides China?

MR. FELDMAN: Yes. Our major source of supply is from Korea, but we do have some direct Chinese importation, but it is North -- not North, it's Korea that where our major plant is. Please, that was just a, not an intentional or unintentional slip of the tongue.

MS. ROY: Okay. Also, what percentage of your imports of wire and cable come from China?

MR. FELDMAN: I would say, and I will give you the greater facts, but I believe that about 80 to 85 percent of our imports come from Korea.

MS. ROY: Okay. Thank you so much.

MS. PETTIS: This is a question for Mr. Strahs. In 2017 China counted for 20 percent of U.S. imports of this tariff subheading covering insulated cable.

Does Priority Wire and Cable import the insulated electrical cable mentioned from any other sources?

MR. STRAHS: We have sources both domestic and foreign. China is only one of our sources.

MS. PETTIS: Okay. Thank you.

MR. BLAHA: A question for Mr. Murrah. I think there has been an indication in testimony that the domestic producers, including Southwire, don't have the capacity and are unable or unwilling to source all the domestic distribution channels.

So I guess in your view for the, I think the medium and high voltage cable is under discussion, do the domestic producers have the capacity to supply the entirety of the domestic market and if not I guess how long it would take to increase the capacity to do so?

MR. MURRAH: Yes, Southwire's view is that the domestic market absolutely has existing capacity to serve the U.S. market. Beyond that we certainly believe that there is ample capacity outside of China to easily serve any demands that would occur within the United States.

And, thirdly, even should Southwire be in a position to outsource material outside of the United States it's not clear to us how a duty or tariff might prohibit the supply of that item in a category where we may be short.

MS. ZUCKERMAN: This question is for Mr. Updyke. What would be the challenges that your members would face in trying to move their sourcing outside of China and have your members estimated how long it would take to develop new supply chains?

MR. UPDYKE: Thank you for the question. It's one that I cannot answer at this time since we have over 300 member companies. We can focus in our post-hearing comments on the items on Annex C and try to give you some information about those products and those companies. Thanks.

MR. SULBY: Last question for the representative from Prismview. In your testimony you noted that Prismview manufactures LED modules in Utah and China.

Are there factors that limit the ability to manufacture all the modules in the United States? And, separately, what other countries can produce the modules other than China?

MR. SZCZEPANIAK: So in terms of producing in the United States the limiting factor is time. We already have plans to expand our production in the U.S. However, it's about 18 to 24 months because we have to build a new building, supply it, do all that.

The ironic thing is that, unfortunately, even if we built that plant the LEDs that we would buy to produce the modules were part of the first tranche of tariffs, so I would still incur a 25 percent tariff and increase my costs by 25 percent to go ahead do that.

So it puts us in a bad situation of really having to re-evaluate that investment in terms of building modules outside of the United States in places other than China, of course, it's possible, but because virtually all the LEDs in the globe are produced in China being closer to the source of the supply of LEDs, which are the major components of the modules, is advantageous from a cost standpoint.

So I can do it, it just costs me more to do it.

MR. BURCH: We release this panel of witnesses with our thanks.

(Pause)

MR. BURCH: Our first Panel witness is Joseph Cohen of Joe Snow, LLC. Oh, Snow Joe, LLC.

MR. COHEN: Close enough.

MR. BURCH: Mr. Cohen, you have five minutes.

MR. COHEN: Thank you. Good morning, I'm Joseph Cohen, the founder and CEO Snow Joe. I'd like to testify today about the significant harm that would be caused to American consumers and businesses if a 25 percent tariff is imposed on home garden tillers and log splitters.

Two months ago I testified before this Committee about the unintended consequences that would result from imposing tariffs on electric and cordless snow blowers and snow shovels. I am grateful to have had the opportunity to voice my concerns and even more grateful that the committee excluded these products from the final list of the Section 301 duties.

The facts supporting my testimony today on summer garden tools are the same as they were for our snow removal products. As I will explain, there are currently no other sources for these seasonal home products outside of China.

As a result, if a 25 percent tariff is imposed, consumer access to these everyday tools will be restricted and U.S. jobs will be put at risk. At the same time, because home and garden tools are not Made in China 2025 priorities, the goals of this investigation would not be advanced by imposing tariffs on these items.

And therefore hopeful that home garden tillers and log splitters would be excluded from the final tariff list.

As I testified two months ago, I launched Snow Joe almost 15 years ago when I was a junior in high school.

I invented my first product, an electric snow shovel, to provide Americans with a better, more affordable tool to clear out during a snow storm. The product sold out in seven minutes on QVC and my company was born.

By 2009, Snow Joe had expanded beyond winter products in order to meet customer demand for affordable, easy to use lawn and garden tools. We sell these products under the brand new Sun Joe.

Today, Snow Joe is a thriving and rapidly growing company which creates work for hundreds of Americans and has more than $250 million in Annual retail sales. We take pride in our continued development of innovative and high quality outdoor tools for American consumers of all ages who want to be able to clear their own snow, do their own yard work and care for their own gardens.

We invest heavily in American R&D and provide work for approximately 300 people in the greater New Jersey and New York areas. This month we opened a new 277,000 square foot state of the art distribution and test facility in Mahwah, New Jersey, that will support at least 100 additional jobs.

We are also expanding into Washington State with a planned 300,000 square foot facility in 2020. Because we are company founded on American ingenuity, Snow Joe recognizes the importance of fair and reciprocal trade in protecting intellectual property rights.

We therefore appreciate the goals that the administration has set to promote these policy priorities, however, we believe that the proposed duties on electric or battery power tillers and log splitters would cause undue harm to our customers and to our company without addressing the stated concerns of the administration.

Like our snow removal tools, Snow Joe's non-gas powered tillers and log splitters are designed and developed in the United States. However, as I will explain today, these products are manufactured in China out of necessity.

Since launching my company I've always looked for, first, for U.S. suppliers for our products. When we can, we source from the United States. For example, we produce our ice melt product in Delaware.

But just as was the case for our snow removal tools, we have no U.S. suppliers of gas free tillers and log splitters. Even today I am not aware of any significant production of such products anywhere in the world outside of China.

It is simply not realistic to manufacturer these products in the short or medium term of the United States. American consumers use our log splitters, for example, to split wood for their indoor fire places.

These products are primarily purchased between September and December. Similarly, tillers, which are used to prepare backyard vegetable gardens, are generally purchased over a three month period early in the year.

The hyper-seasonal nature of these

products provides little incentive for the massive investment that would be needed to created new production facilities. Such investment would also take years to materialize into actual production.

For a small but growing company like mine, such an investment is simply not commercially feasible. Thus, with no known U.S. or significant third country supply source outside of China, for gas free tillers and log splitters, and in light of the significant hurdles to building such capacity in the United States in the near or medium term, we have no choice but to source from China.

If tariffs are imposed, we will be unable to offset the impacts of these tariffs by shifting suppliers.

As a result, the tariffs will essentially act as a tax on U.S. consumers of these products, some of which retail as low as $99. This could particularly harm those Americans, including the elderly, who by necessity, turn to our lightweight easy to use products as an alternative to heavy gas powered lawn tools.

At the same time, the imposition of tariffs on these products would not advance the stated goals of the administration. These small scale lightweight consumer products are plainly not a focus of China's industrial policies or its efforts to challenge U.S. leadership and high technology sectors.

Nor is Snow Joe aware of any instances of Chinese and electrical property theft with respect to these products. For these reasons, Snow Joe respectfully requests that the USTR exclude from its proposed list the specific tariffs highlighted in our submission. Thank you.

MR. BURCH: Thank you. Our next panel witness is Jane Hardy, Hardy of Brinly-Hardy Company. Ms. Hardy, you have five minutes.

MS. HARDY: Good morning. My name is Jane Hardy and I'm the CEO of Brinly-Hardy Company. The 5th generation hardy family member and the only female to head the company.

Brinly Hardy is a certified WBE. We're a family business designing in manufacturing residential and commercial lawn and landscaping equipment, and more recently, residential zone heating equipment.

We're a Kentucky Corporation with our manufacturing based in Jeffersonville, Indiana employing as many as 200 people. We've been in business since 1839 and we have always found a way to change and to survive over our 179 years. That has included several wars, depressions and recessions.

However, I feel that we will not survive the recent tariff actions. And most recently, the Section 301 duties that the USTR is imposing.

On behalf of all of our employees, and my family, I thank you for the opportunity to provide remarks today. I am here to specifically request that the USTR remove HTS 8432.42.00 from the proposed listed of products subject to Section 301 duties. This one change could literally save our company and save our employees' jobs.

Brinly-Hardy takes great pride in creating and keeping manufacturing jobs. We began by producing horse drawn plows and we now manufacture this residential lawn and turf equipment, for Home Depot, Lowe's, John Deere and others.

In 2014 we acquired the assets of Louisville Tin & Stove, a 125 year old manufacturer of residential zone heating equipment based in Louisville, Kentucky, thereby saving another 45 local jobs.

For all of our products we manufacture in the United States, we source component globally. And strategically we source a few complete products from other countries.

For the products we manufacture, which is more than 80 percent of our SKUs, our primary raw material is steel. Which we buy exclusively from U.S. companies.

Our steel contracts expire in April, and in April of this year, immediately following announcement of the Section 232 tariffs, we were hit with 25 to 37 percent increases from our suppliers. There has been no reduction since and none is anticipated by our suppliers.

We are not large enough to push back on this increases and we are not able to pass them through to our customers.

The products that we manufacture also include wheels, hardware and other components sourced from U.S. suppliers and from suppliers in many other countries, but primarily from China. These are not high-tech items and we source wherever we can to suit our designs and to remain competitive.

Many of these components were included in the Section 301 tariffs that took effect on July 6th, so both the raw material that we buy in the U.S. and the components that we source from Asia have been impacted, at minimum, by 25 percent increases in cost.

Finally, the few complete products that we have produced in China, in partnership with other U.S. companies, have now been added to the current tariff list. We import commercial grade fertilizer spreaders sold to landscape contractors and professionals.

And we just recently redesigned and improved our product line, making a tooling investment of over $400,000. We are currently the most premium brand in the industry, we will not be able to sell our products if we raise our prices to cover a 25 percent tariff. And we will not be able to recover our investment in tooling.

Thousands of landscape contractors will be impacted as well. This product is important to our profitability, and to a large extent, it subsidies some of the product we make in the U.S. for consumers.

This final 25 percent tariff imposition, the inclusion of HTS 8432.42.00 could be the nail in our coffin.

Since the announcement of the Section 232 tariffs and the first round of 301 tariffs, we have had to respond with significant layoffs and salary cuts. We have eliminated our second shift of production, we've implemented week long shutdowns and are anticipating further cuts. We are producing at the lowest level since 2009 and we can't sustain it.

USTR Section 301 duties punish companies such as ours for smartly diversifying. While I applaud the USTR for seeking to address the very really problem of Chinese intellectual property theft, that is not the situation here.

There is little IP. And what there is, is respected by our trusted suppliers. We are caught in the middle of this trade battle.

Our U.S. manufacturing jobs and our 179 year history should not be considered acceptable collateral damage. We have felt the pain of the current trade war enough through the Section 232 duties and the first round of Section 301 duties.

Please prevent the closing of another U.S. manufacturer by not imposing tariffs under HTS 8432.42.00. Thank you very much for your time and consideration.

MR. BURCH: Thank you. Our next panel witness is Michael Kersey of American Lawn Mower Company. Mr. Kersey, you have five minutes.

MR. KERSEY: Members of the 301 Section Committee, thank you for the opportunity to testify today. I'm Michael Kersey, president of the American Lawn Mower Company and Great Stage Corporation, which I will refer to today as ALM.

ALM, a small, family-owned Indiana Company is more than 120 years. We have provided the consumer with a reliable, low emission easy to use option in the lawn and garden equipment market since the company's founding in 1895.

At that time, Robert B. Kersey, my great-grandfather, started his business focusing on the real lawn mower. The real mower which is solely powered by the operator's force, continued to be the company's backbone into the early 1940s.

After a brief swift to manufacturing for the U.S. Military in support of our armed forces during World War II, the company went back to its bread and butter, the real mower. And not its continued to be an industry leader in this market segment despite the introduction of the gasoline powered mower.

During the shift, from real to gasoline mowers, ALM was able to weather a well-saturated real market of over 60 domestic manufacturers in the early 1954s to four by 1970. By providing excellent quality, by focusing on customer service and by the vertical integration of ALM's processes.

Starting in the 1980s, the company made the decision to expand its product offering into the small manual garden tiller market. In the 2000s, we began offering corded and battery walk-behind rotary tillers, which today, are some of the most popular small garden tillers on the market.

ALM tillers, mowers and other products are sold at Walmart, Home Depot, Amazon, Lowe's, Ace Hardware, True Value and many other outlets. ALM's electric, corded and battery powered tillers are on the Annex C list of additional items proposed for Section 301 tariffs.

We provided the tariff number of concern with our request to appear at hearing dated June 29th, and in our written comments filed on

June 23rd.

The tiller represents a large portion of our current sales and is vitally important to our plans for growth. It's actually our second largest category. And very important to the future of the company.

To the best of our knowledge, there are no electric or battery powered tillers that are wholly manufactured in the United States today. We have no option but to import these tillers. And the predominant, if not the only source, is China.

It is difficult to imagine that other countries would be able to replace China as a supplier of these tillers, at least within a year's time, and would be difficult to foresee ALM manufacturing these products in the United States without a lengthy, disruption and supply.

If the administration imposes tariffs on these products it will jeopardize ALM and ALM jobs without helping a single U.S. manufacturer or U.S. manufacturing job.

Because ALM tillers are designed primarily for home use, the proposed tariff on our tillers would have a disproportionate impact on individual consumers of yard and gardening tools.

Furthermore, because relatively light weight battery and corded tillers provided by ALM, and others, are very popular with women and elder for use in home gardens, women and elderly consumers would be effected disproportionately by the proposed tariff.

Electric corded battery tillers are not the high-technology items identified in China's Made in China 2025 plan. These tillers are not part of any market harm from China's intellectual property practices nor do they contribute to China's high-tech ambitions.

Imposing tariffs on tillers would run counter to what the administration is trying to accomplish. Adding tariffs on tillers would only encourage Chinese producers of these goods to migrate to more expensive higher-tech products. The sort of products the administration is attempting to target with these 301 tariffs.

Section 301 Committee, ALM will supplement this testimony as necessary with a post-hearing brief, but I thank you for the opportunity to testify today and I look forward to any questions.

MR. BURCH: Thank you. Next panel witness is Greg Merritt of Cree, Inc. Mr. Merritt, you have five minutes.

MR. MERRITT: Thank you. And thank you to the Committee for the opportunity to speak to you today.

My name is Greg Merritt, I'm the vice president of marketing and public affairs at Cree, Incorporated. Cree is an American company, a market leading innovator and the leading U.S. producer of power semiconductors based on cutting edge silicon carbide technology.

Silicon carbide-based power semiconductors are superior in many ways to the current industry standard silicon based power semiconductors. These power semiconductors are critical components in applications such as electric vehicles, electric vehicle charging, solar power invertors, energy storage as well as computing and industrial power supplies.

Cree has invested heavily in developing expanding American IP through $1.3 billion in R&D spending in the U.S. over the last ten years. Our R&D investment has led to over 2,200 U.S. patents.

Our R&D spending and IP development takes place in our Durham, North Carolina, headquarters facilities. We also produce the silicon carbine materials and semiconductors wholly in our Durham, North Carolina facilities.

Production of silicon carbide wafers for power semiconductors is a high-tech complicated process using extremely proprietary technology. This process involves hundreds of semiconductor fabrication steps and takes between six and 20 weeks.

Cree produced tens of millions of units in our Durham facilities in 2017 and represents a 32 percent increase over 2016 production and a

79 percent increase since 2014.

Silicon carbide technology has not yet successfully developed in China. And Cree's goal is to ensure that it never does by maintaining its current U.S. technological superiority in these products.

In order to maintain the superiority, we must continue to grow faster in the aspiring producers in China and elsewhere. Anything that slows down Cree's ability to invest in and continue to grow the silicon carbide business, would create an opportunity for Chinese producers to enter or to gain momentum in this market.

Inclusion of certain products, specifically our Schottky diodes under HTS 8541.10.00 on Annex C would impact our competitors in the U.S. market.

Cree, like many U.S. semiconductor companies, exports our fully manufactured power semiconductors to China for final packaging. There are very little value-add operations conducted in China and no Cree IP is transferred or made available to the Chinese processors.

This packaged power semiconductors are then sold throughout the world within approximately 45 percent of our sales into China.

While silicon carbide power semiconductors offer superior performance to their silicon based competitors, our U.S. customers will not accept a price increase of 25 percent as a result of the 301 duties.

As a result, U.S. customers are likely to not choose Cree's silicon carbide power semiconductors. The loss of these U.S. sales would damage the ability of Cree to continue to significantly invest in growing our market position and improving the silicon carbide products.

Hence our expansion would slow and this would create an opportunity for companies in China to enter the market.

Cree supports the administration's efforts to protect U.S. companies from Chinese anti-competitive policies and IP theft. However, in this particular case, the proposed 301 duties would actually damage the ability of Cree and our customers to maintain our technological advantage over China in these cutting edge power semiconductors.

We believe this is a very definition of disproportionate economic harm. As a value of Cree's U.S. R&D and IP investments would decrease.

Our non-U.S. competitors would obtain a competitive advantage over our American operations and the tariff would have no impact on China's anti-competitive IP practices.

We do not believe this outcome is what the administration intended nor do we believe it meets the goals of the 301 process. Therefore we request to HTS 8541.10.00 be removed from the list. Thank you.

MR. BURCH: Thank you. Next Panel witness is Joseph Pon of Applied Materials, Inc. Mr. Pon, you have five minutes.

MR. PON: Members of the Committee, thank you for the opportunity to speak to you today. I'm Joe Pon, corporate vice president of the

Applied Materials.

Now, Applied is the leader in materials engineering solutions used to produce virtually every new semiconductor chip in advance display in the world. We're headquartered in Santa Clara, California with major manufacturing plants in Austin, Texas, Gloucester, Massachusetts, and Kalispell, Montana.

Founded in 1967 in a Silicon Valley garage, Applied has grown into a significant technology company with nearly 20,000 employees in 17 countries around the world.

Applied Materials imports a number of items that are important to building the complex high value added tools that we export around the world. In fact, 90 percent of Applied's revenue is from sales outside the United States.

And these exports support substantial research and manufacturing operations in California, Texas, Massachusetts, and Montana, contribute positively to the U.S. trade balance. Importantly, they also sustain the 15,000 high paying American jobs represented by U.S. employees and contractors.

With growth in foreign markets we've been rapidly creating jobs in the United State adding more than 3,000 jobs since 2016.

I'm here today on behalf of Applied Materials to request the removal of semiconductor supply chain items classified under HTS 8486.90 and 8486.20 from the proposed list of products subject to the Section 301 tariffs.

We believe these tariffs will cause disproportionate economic harm to U.S. interests and moreover, we do not believe these tariffs will advance the administration's goal of changing the Chinese government practices identified in the Section 301 report.

The semiconductor equipment industry in the United States consists of about 400 companies. Eighty-five percent of which are small and medium size enterprising representing nearly every state in the country.

Overall, U.S. companies represent

about 47 percent of a $62 billion global industry. And while leading American companies, such as Applied, top the list in terms of revenue, substantial competition does exist from European and Asian companies who can supply comparable quality and sufficient quantity to meet customer needs.

Industry experts estimate the proposed tariffs would place about $500 million costs on your industry alone. In placing this burden squarely on U.S. companies damages America's manufacturing advantage and provides significant benefits to our foreign competitors.

The imposition of these tariffs will raise the cost of U.S. made equipment making it less competitive, both in the United States and around the world, where most of our customers reside.

In short, these tariffs punish the very success our sectors worked so hard to achieve and puts at risk the high-skilled American jobs that make it possible.

With regard to China, the products we import under these subheadings are relatively low value added items with minimal IP. They have little relevance to the Made in China 2025 industrial policy and they have not been subject to force technology transfer.

In fact, most of these items are made by non-Chinese companies operating as wholly foreign-owned enterprises.

The items are largely structure in nature, such as metal mainframe skeletons, chamber bodies, generator components, which our manufacturing operations in Austin, Kalispell, or Gloucester incorporate into the high-tech equipment that Applied then exports around the world.

In other words, the true value of our products is created by American workers, on U.S. soil and sold to customers around the world to sustain really what one of our nations great manufacturing success stories.

Applied exports support U.S.

manufacturing jobs in R&D, they help us narrow the U.S. trade deficit. And without question, the protection of our intellectual property and the integrity of the supply chain is Applied's top priority. And we understand it to be critical to our future success.

We fiercely projected our IP in every country in which we operate for the past 50 years. We do nearly all our semiconductor R&D labs we've long established in the United States and we have no plans to change.

That said, we recognize the challenges faced by other industries and companies and the unfair playing field they may face in the Chinese market. As a company highly dependent on international trade and strong intellectual property protection and the rules that govern both, Applied is opposed to force technology transfers and intellectual property theft that harms U.S. companies.

In summary, we believe the tariffs on these subheadings constitute a tax on exports of high-value added U.S. goods. Potentially disrupting relationships without the value chain and opening the door for non-U.S. equipment suppliers to take the market chair, which Applied, American companies have worked hard to win.

We encourage the government to help further our export success story, not hobble it by imposing self-defeating tariffs. Accordingly, we respectfully request that 8486.90 and 8486.20 be excluded from Annex C in its final form.

We remain committed to work constructively with the U.S. government to find effective solutions to address discriminatory trade practices. I thank you for holding today's hearing for the opportunity to discuss our concerns.

MR. BURCH: Thank you. Our next panel witness is Gary Stanitis of Daikin America. Mr. Stanitis, you have five minutes.

MR. STANITIS: Good afternoon, Mr. Chairman and Members of the Committee. Thank you for the opportunity to appear today on behalf of

Daikin America regarding three fluoropolymer products that appear on the list for possible additional tariffs.

My name is Gary Stanitis and I am the vice president of business development at Daikin America, a chemical company with headquarters in Orangeburg, New York. Daikin America has manufacturing facilities in Decatur, Alabama and Hanover, Massachusetts.

Daikin America is a subsidiary of Daikin Industries, also referred to as DIL. DIL undertakes local sourcing for its products through its subsidiaries and strongly believes in making investment for production in the United States.

DIL's Chinese plants for fluoropolymer products overwhelmingly serves the Chinese domestic market.

The same local focus is true of Daikin American's plant in Alabama. The Alabama plant started in 1993 with $150 million of investment and four major expansions with over $180 million in investments since then.

Another subsidiary of DIL, Goodman Manufacturing, recently completed a $500 million investment, plant investment, in Daikin Texas Technology Park near Houston. Where 5,000 employees produce residential central air conditioners, heat pumps and furnaces as well as commercial heat pump systems that were formally imported from Asia.

By 2020, Daikin expects to have 7,000 workers employed there.

The tariff codes I want to address today are HTSUS 3904.61.00, polytetrafluoroethylene, 3904.69.10 fluoropolymer, elastomeric, other than polytetrafluoroethylene, and 3904.69.50, fluoropolymers other than elastomeric and other than polytetrafluoroethylene.

Daikin America is puzzled as to why the fluoropolymer products have been included in the new list. These are all niche type products and a decline in the volumes of the imports of the products from China is unlikely to pursued the Chinese government to change its policies on intellectual property, investment or other issues.

Daikin America fully supports strong, intellectual property investment and other -- I'm sorry, enforcement of intellectual property rights worldwide. But the greatest effect of the proposed tariffs on these products will be to undermine Daikin America's future investments in the U.S. for these products, by impacting the growth of new markets. The very opposite of the results we know the USTR desires.

For example, Daikin America is expanding its share of the U.S. market with a new and unique FEP fluoropolymer melt resin for the data communications cable market. Daikin China makes a special product that is highly demanded by this market. But our FEP plant in Alabama is now running at capacity.

To justify future investment to produce this product in the U.S., we need continued to market acceptance and demand. The proposed tariff will affect our market validation and will put any future U.S. investment for this product in jeopardy.

Likewise, PTFE Fine Powder for the aerospace and high performance wire industry also is currently imported from our affiliated China plant and is being used to expand and validate these markets.

We currently are examining expansion of our Alabama plant. Such expansion would require two years of engineering and construction with investments in excess of $200 million.

The proposed tariffs will put this kind of expansion in jeopardy. If we are unable to retain to market share because of the prices from China we are now selling become prohibitively expensive.

Fluoroelastomer resin supporting the automotive market for hoses and high performance gaskets are also made in our affiliated China plant. These resins are imported into the U.S. and then compounded in our Massachusetts manufacturing location by American workers, before being sold into the market.

With higher prices caused by the proposed tariff, we risk losing the market for this product. The consequent work being done by employees in Massachusetts and the ability to invest in the manufacturer of product in Alabama.

Finally, for the PTFE we note that this product is subject to an antidumping investigation, which is currently pending. That dumping case already has caused hardship to our customers because price levels in the U.S. for Chinese produced products have already increased by approximately 75 percent. Another 25 percent tariff is likely to have an even more severe effect on our customers.

While the tariffs on these three HTSUS codes both undermine future employment possibilities in the U.S. and hurt our customers, the effect on Chinese government policies, intellectual property, investment and other matters will be negligible in our view.

This technology is not U.S. owned and undermining the future investments by U.S.

subsidiaries of a Japanese owned Corporation is unlikely to persuade the Chinese government to make the forms the USTR wishes to occur.

So, we respectfully request that USTR remove these three HTSUS items from the list of products that you make, that may be subject to additional duties. Thank you for your time today and I'm happy to answer any questions.

MR. BURCH: Thank you. This concludes this panel of witnesses testimony.

MR. BLAHA: Thank you. This question is for Mr. Cohen. I think you referenced some seasonality in terms of the sales and various products under consideration. And to your knowledge, do the facilities that manufacture the non-gas powered tools and log splitters exclusively produce those products are is there some seasonality in production as well?

MR. COHEN: Some of those factories specialize in those categories. I guess they're able to offset it by supplying other sources. For us though, it's a very hyper-seasonal category.

Tillers in factories sold between January and they stop selling in March. By that point grass is coming in and people already, that season has sort of passed. Your opportunity at least to plant in your garden has passed.

MR. BLAHA: Right. So I guess kind of what I'm getting at is, the constraints that you referred to in terms of setting up additional product in these things, can that be spread over multiple products or does these really require dedicated facilities with all the capacity constraints you referenced?

MR. COHEN: Yes, some of the factories that we order these product lines from specialize in those categories. There's certain gear components that make the tiller operate in a specific way.

In theory, they could expand to do potentially other things, but for us we just don't have that luxury because its, we need to be sort of in and out of the category relatively quickly. At that point, the retailers will start wanting to exist those products.

So I sort of understand a little bit where you're heading with it, but it's not like we could setup shop and do a multitude of other items in the line. It's, we're buying tillers from one specific tiller factory. Bringing it in, selling it and exiting the category quickly and then moving on to the next line of business.

MS. MAIN: My question is for Jane Hardy from the Brinly-Hardy Company. Ms. Hardy, you testified that your small business imports commercial grade fertilizer spreaders from China, which you identify as falling under HTS 8432.42.00.

I have two separate questions regarding your testimony, regarding these commercial grade fertilizer, spreaders. First of all, are you aware of any sources, besides China, that could meet your demand to import such fertilizer spreaders?

And secondly, we're aware of a different product that's called Further Distributors, which also is associated with that same HTS number and we'd appreciate any further information you have about how commercial grade fertilizer spreaders differ from fertilizer distributors that are used in the agricultural sector?

MS. HARDY: So, I'll take the second question first if that's okay. My understanding is they are both classified under the same whether they're agricultural or they're residential or they're commercial for landscapers.

So, our products, these products have been imported for over ten years under that classification, so I believe they are combined.

Yes, there is the possibility of producing that product in the U.S., in fact, we make fertilizer spreaders in the U.S. When we decided to tool these new designs, we used the factory that we already had a relationship with in China because we don't do a lot of the same manufacturing, we're mostly a metal stamper, bender, welder. That's the primary production capacity that we have.

The products are more plastics,

stainless tubing, that type of thing. Which we don't do a lot of in our factory, so we made the decision that it suited our partner in China better than it suited us to make that product.

So, we could make it in the U.S. Unfortunately, about two years ago we made the decision to tool it in China and the tooling does not transfer. We can't bring that tooling back to the U.S. to make it here. So that investment would be lost.

MS. PETTIS: Good morning. Mr. Kersey, I had a question for you. You mentioned that alternate sources of supply would be difficult to obtain in less than a year, and could you describe the major obstacles to initiate their increasing production elsewhere?

MR. KERSEY: Sure. I think the driving factor in this is the fact that these products are the tiller, the log splitter, the fertilizer spreader that tend to be more consumer based, are all very high labor component that are low skilled, require low skill.

So, that right there is a core economic reality that a tariff won't change. So to, I suggest that it would be difficult to see us manufacture in the United States within a year.

We split off from our company back in the '30s. The highest cap ex, capital expenditure, business that we had, which was our foundry, today we have roughly 350, 400 people that still work there. And we supply parts for the Toyota Camry, we supply parts for the Ford Series.

But it's because of the economic reality of, its high-skilled labor, high cap ex, very low labor components. And it used to make all of our parts that went on to our real mower.

So, the two businesses separated and the low cap ex, high labor component part company that I run, is today, faced with the economic reality that it's going to be made in parts of the world that have the lowest cost labor.

And really, there is very few countries that have the capability to do this. Mexico, to some degree. Possibly.

But still, the economics would have to change significantly for that to matter in this. In this factory.

It's similar for a lot of other consumer categories such as toys. You don't see a lot of toys being made in Mexico, you don't see a lot of products like ours being made in Mexico for that reason.

Now, if there was some permanent change, then yes, you can see a permanent change to the economics. Which this tariff is going to do, at least from what our understanding is, then the chances of it actually moving out of China would be very difficult to see happen. Certainly not to United States, possibly to Mexico, maybe to Korea. But the wage rates there are still fairly high.

India is not developed enough as a infrastructure to really allow for this to happen on a large scale. So, as far as we're concerned, China is really the only option in the, is the long-term option.

So, what you all are talking about is some short-term. And the decisions that we make when it comes to investments are long-term decisions, so this is creating significant pain for us in the short and mid-term. And it could be debilitating. You know, depending on how long it lasts.

A couple of other complicated factors are the seasonality that Joe was mentioning. It means that it's highly seasonal, its highly dependent on things like rainfall.

And it's also the bind cycle and the production cycle is very short. And retailers in a lot of these categories, because of the compressed risk to forecasting, will, in my opinion will see, and I think that this would have definitely happened in the snow throwing industry, which we talked about when I came through a couple months ago, to where we would see retailers just not wanting to take the risk and just cancelling.

Because they're not going to buy tillers. In other words, cancel the orders. They won't buy tillers especially that, when they can't, there is no -- it's very difficult for them to predict on such a small timeline or small sale season what a 25 percent increase in the cost would do to it. They might try to pass it on to us. We couldn't eat it so we just have to cancel it.

And at the end of the day you won't see -- I don't think there's anything that can happen outside of a revolution in China that could change the core economics.

So, in the short-term especially, the tariffs are only going to hurt us. We are totally different in the consumer goods than industries such as, let's say high volume steel, where there is capacity here or aluminum or wire or whatever, where shifting capacity is, it's very easy to do.

You raise tariffs in one section and the whole market flows to another part of the world. So, you just can't do that with us. Thanks.

MS. PETTIS: Thank you.

MS. ROY: This question is for Mr. Merritt, Cree, Inc. You indicated in your testimony that final packaging for Cree products take place in China. Does Cree have packaging facilities located in any other countries?

MR. MERRITT: So, the packaging facilities in China are not Cree facilities they're contract manufacturers. For these particular products.

We do a small amount of packaging in other countries, but the vast majority of it is in China.

CHAIR TSAO: Sir, I have a quick follow-up. Just a very basic question. What does it mean when you package these products, I mean, I can't imagine you just put plastic covering on it, right, can you describe that a little bit?

MR. MERRITT: No, that's a good question. So we effectively make the semiconductor device in Durham, North Carolina, so it's a silicon carbide device that performs the functions that are required out of it. In this case, the Schottky diodes.

In order to make that device more

consumable by our customers, it's actually packaged, it's enclosed in a package that also adds external electrical connections to it.

So, effectively it doesn't change the functionality of the device, it changes the consumability of it. It makes it easier for an electronics manufacturer to plug it onto a board, effectively.

It's an industry standard process, which you're likely to heard this afternoon from more people who employed the same process.

MR. SULBY: My question is for Mr. Pon. You mentioned in your testimony that you want tariffs removed on HS code 8486.90 and talk about mainframe skeletons and chambers bodies, et cetera, imported from China.

Could you find alternative sources of supply other than China, whether in the U.S. or in third countries?

MR. PON: Well, you know, I took a look at the list of suppliers who are actually, from which we buy stuff that is made in China. What struck me was nearly all those companies were not Chinese companies, they were foreign to China.

And probably about half the value of that product is coming from companies that are already U.S. companies. So in other words, we are buying from U.S. suppliers, it's just some of that, within their operations they're choosing to manufacture some of that within China.

We could abandon those suppliers and find others but we prefer to stick with our American suppliers.

MS. ZUCKERMAN: This question is for Mr. Stanitis. You mentioned that Daikin has U.S. and Chinese facilities. Does Daikin have production in other third countries in the products under discussion, and is that an option for the future for Daikin?

MR. STANITIS: So, Daikin has two facilities in Japan. We have the one in China, the one in, the two in the United States, one major one, and then we have a middle-sized plant in Europe. And a couple of smaller compounding plants. But from a raw material standpoint, a mid-size plant in Europe, a large plant in Decatur, Alabama, and then two in Japan and in China.

And as far as expansion, so, at this point in time, we seem, again, China has a market that we're serving, so we are regularly expanding in China.

And as I testified, we have been regularly expanding in the U.S. Not so much in Japan, those plants are older plants that are pretty well built-out, but our, say in the last 15 years our expansion strategy has been focused on the U.S. and China and more recently we built that smaller plant in Europe but we're not really looking, at this time, for a major expansion in Europe.

MR. BLAHA: Sorry, just kind of a follow-up general question I think on the commercial lawn care products in general.

To the extent that you know, either through your partners in China or your own facilities, for the commercial segment of these products, is the U.S. the major source here or is there global demand?

Do any of you export or, are these really kind of produced in China, come to the U.S. for consumption kind of situation?

MS. HARDY: So, I'll answer. From the commercial standpoint they really are used in the U.S., primarily. Although a lot of what we make is golf, golf course equipment which is, of course, everywhere.

MR. COHEN: If you don't mind, I'll add to that a little bit. I think the challenge when we looked at this process and the first list came out is that a lot of our items are classified under heavy agricultural HTS codes.

And from my understanding, Mike, his company, and I believe Jane and mine, are sort of more on the pro and the consumer side of the space. And if you look and read the face value of the HTS code, you'd read it and say, wow, this is some sort of major tractor that you're using to plow a field.

In the reality, we're selling a garden

tiller for $99 to plant a small vegetable garden that you saw on QVC or HSN. It's a big difference.

So, I think the challenge and sort of the unintended consequence was, here are the HTS codes with the sort of heavy equipment, and I understand that concern, we're sort of getting scooped up into that by saying, here, here's the eight digit code 8432.42 is an example. We don't really have another HTS code to go under.

And our industry, I can at least speak for myself and maybe Mike, really, the last 15 years is when we've seen consumer grade garden equipment, like battery paid tillers or lawn mowers, stuff that you'd see at the Home Depot or Lowe's now.

I guess it wasn't around when these HTS codes were first created. So unless there is a quick way to remedy by including a new HTS code that these smaller tools could go under that would be really the quick fix, but until then, we're sort of getting scooped up into what you consider really heavy equipment. And that's at least the way I understand it.

CHAIR TSAO: My follow-up to that is, I understand that at the eight digit level, right, a lot of the consumer type products are swept up with the industrial agriculture products. Are there any ways to distinguish under our existing either eight digit or ten digit or even product description level, between the consumer products and agriculture-type products?

MR. COHEN: From my understanding with our counsel and customs brokers, we need to pick the closest HTS code to fall within compliance and to be not subject to penalties.

And from what the feedback I've been getting, no. Even that little tiller, even though it's considered a handheld as an example, you need to use the 8432.42 as an example.

I'm open to suggestions if there's another one, but --

CHAIR TSAO: But are there, well, setting aside sort of the tariff treatment, right, but what about in terms of substance, is there a difference, I mean, different power source, size, dimension?

MR. COHEN: It would be easy to reclassify. I mean, we can say things like, stuff that are under a certain size should be excluded, but there just isn't a HTS code that's there, it's very broadly written.

And there's just another section which usually, where a lot of these tools sort of relegated towards. It's that, usually that third HTS sequence that says other. And that's where a lot of this stuff is being grouped under.

The only remedy we see at the moment is to come to these hearings and request exclusions. And it's been successful. And we appreciate, I appreciate that with the snow equipment and we're looking to do the same here now.

MS. HARDY: May I provide an example to the question that leads to the question around fertilizer distributors or fertilizer spreaders? You know, the ones that we bring in are push type spreaders. They're manual.

An ag spreader is much too large for

that. There are ways to separate them, but to Joseph's point there is currently separation in the codes today.

So, we're being lumped in as agricultural when in fact nothing is agricultural. It doesn't fit at all.

MR. KERSEY: And we went down the same path. Checked with our attorneys, checked with our importers, our custom brokers and same thing. There is no --

MR. BURCH: Can you please speak into your microphone?

MR. KERSEY: I'm sorry. Yes, we found the same thing that there is no path that we can go through besides coming here today to have anything effectively done.

MR. BLAHA: I guess just to the extent that you're aware, if I were to look at the imports, which I'm not familiar with of these products specifically, would your products, kind of the consumer level, that be small minatory, it's your best guess, or are these fairly niche and small that are really kind of, is the overall trade value in those things really being governed by the large agriculture things?

MR. COHEN: Yes, I could --

MS. HARDY: I'm not able to answer that.

MR. COHEN: -- take the question. So, I did a little bit of research. So, there's websites that scan the import data, stuff like Panjiva and others, and you look at these HTS code levels you'll see heavy equipment, heavy equipment sort of bunched on every shipment coming, whether it's coming in from China, whatever. And then you'll see our pocket of shipments.

If I had to put a value on it I would probably relegate ours to be very small because the average selling price of what we do is much, much lower than a heavy piece of equipment coming through.

But, I mean, if the intended goal here is to take the heavy equipment, we get that, we just need a solution for how we would break that out. And we're, again, open to any feedback you guys could advice on how best to approach that.

Where you could keep the heavy equipment on we could be somehow relegated somewhere else. If that option exists.

MR. BURCH: We release this panel of witnesses with your thanks.

CHAIR TSAO: And now we'll take a 25 to 30 minute break for lunch reconvening at 1305. We're in recess.

(Whereupon, the above-entitled matter went off the record at 12:25 p.m. and resumed at 1:02 p.m.)

MR. BISHOP: Mr. Chairman, our first witness on this panel is Andy Barnauskas of Banner Engineering. Mr. Barnauskas, you have five minutes.

MR. BARNAUSKAS: Hello, Mr. Chairman and members of the committee. My name is Andy Barnauskas, and I'm the Senior Vice President of Operations at Banner Engineering Corporation. Thank you for the opportunity to participate before this committee in a matter of urgent and critical importance to our company.

Banner Engineering is a privately-held company based in Minneapolis, Minnesota. We design and manufacture sensors and automation control products for the industrial marketplace. From humble beginnings in 1966, Banner has grown from three people to 950 employees in the U.S. and 1,500 worldwide, becoming the sensor market leader in the United States and a globally-recognized leader in the field of industrial automation, exporting to over 75 countries.

To support this domestic and international growth, Banner operates three factories in the United States, a Mexico facility, and a wholly foreign-owned enterprise in Suzhou, China. Since 2003, we have enhanced our U.S. market position, have become a market leader in China, and grown in other international markets.

This growth has resulted in a 56 percent increase in U.S.-based high-technology manufacturing jobs in Minnesota and South Dakota.

And in the same timeframe, we have also expanded total jobs in the U.S. by over 62 percent.

As a global company, Banner competes with its much larger multinational competitors by providing the industry's broadest selection of industrial sensor products. We provide our customers a portfolio of over 40,000 different products, ranging from very basic commodity sensors to high-technology-based sensor and automation products.

The Section 301 tariffs enacted and proposed by the U.S. government in response to the China 25 policy stands to place Banner in a very difficult position, severely limiting our ability to compete in a highly competitive global marketplace. Banner competes with a combination of commodity and high-technology products.

As mentioned, our China operation is a wholly foreign-owned enterprise and has been in existence since 2003. We produce the commodity sensors primarily in this facility due to extreme cost pressures of global markets where price is the primary buying factor. At the same time, Banner offers an extensive range of high-technology products which are designed and manufactured in the United States. The IP is tightly controlled and remains in the U.S. This combination provides Banner a powerful offering to compete globally.

We fully understand the rationale and impetus for wanting to negotiate with China regarding business practices. However, Banner has not experienced the pressure for transfer of IP or other onerous license requirements as outlined in the Section 301 investigation report.

We agree with ongoing efforts for working towards more transparency in business areas that create barriers to the China market. As there are already multiple Chinese and other foreign competitors producing the same type of commodity products as Banner, we believe these commodity products are not strategically important.

Industrial products, including Banner's, have long lifespans, typically decades, and are difficult and expensive to redesign. As such, the manufacturing and supply chains are complex, sourcing and manufacturing location decisions are challenging, and the time and cost are significant and can span years to change it.

Our primary concern with the increased tariffs is the potential loss of jobs in the U.S. resulting from costs that cannot simply be passed along to customers given our global competitive environment. Implementing unilateral tariffs allows our competitors to import products into the U.S. at much lower costs than we can produce in the United States or import from our own China-based company, precluding simply raising prices in this market.

The current tariff structure poses a twofold problem. The current tariffs that went into effect on July 6th affect Banner already for the commodity products produced in China and imported into the U.S. The latest round of proposed tariffs affects component and commodities we purchase to produce the high-technology products Banner manufactures in in the three U.S.

manufacturing facilities.

In effect, the material costs for the high-technology products we produce in the U.S. will now increase significantly. This will put our company at a distinct cost disadvantage as compared to our international competitors who import these same types of products from other countries besides China. The natural conclusion to resolve this negative U.S. cost structure impact would be to go through the difficult process of potentially producing these products elsewhere besides the U.S. Therefore, we ask USTR to remove the HTSUS subheadings as outlined in the letter.

In summary, we support reasonable trade policies to encourage free and open global competition, but imposing the tariff burden on U.S. manufacturers may have the opposite long-term effect on our ability to compete in a global marketplace.

As a company with wholly-owned status, Banner has not experienced predatory practices or loss of technology as outlined in the 2025 initiative, and the growth in the China marketplace and other international markets has been a significant source of growth for U.S.-based jobs. The current proposed actions will directly harm our company and impact our ability to grow and add additional U.S. jobs.

U.S. companies can compete with anyone in the world when provided a level playing field. However, imposing unilateral tariffs makes it more difficult for American companies like ours to compete globally, but, perhaps more importantly, places U.S.-based companies at a distinct disadvantage in our home market.

Thank you, and I look forward to any questions you may have.

MR. BISHOP: Thank you, Mr. Barnauskas. Our next witness is Timothy Brightbill on behalf of SolarWorld Americas, Incorporated. Mr. Brightbill, you have five minutes.

MR. BRIGHTBILL: Thank you. Good afternoon, Mr. Chairman and members of the committee. My name is Tim Brightbill. I'm a partner with Wiley Rein and testifying today on behalf of SolarWorld Americas. I appreciate this opportunity to appear before you again to express SolarWorld's support for USTR's inclusion of solar cells and solar modules on the second list of products to be subject to Section 301 duties.

SolarWorld Americas is the largest and one of the only remaining U.S. manufacturers of solar cells and modules. It was one of the very few companies to testify during the Section 301 investigation. The hacking of SolarWorld's information and technology were a key part of the Section 301 investigation.

SolarWorld and the domestic solar industry have been devastated by the Chinese government's policies and practices with respect to technology, intellectual property, and innovation. This is detailed in USTR's comprehensive report which found that in 2012, while SolarWorld was litigating a trade case it had filed against solar imports from China, the

People's Liberation Army stole thousands of sensitive files from SolarWorld on at least 12 occasions. According to DOJ, such information would have enabled a Chinese competitor to target SolarWorld's business operations aggressively from a variety of angles.

SolarWorld also testified that the Chinese government's cyber-theft of its proprietary business information resulted in more than $120 million in damages in the form of lost sales and revenue, and that its efforts to stay ahead of the Chinese wave of illegally dumped and subsidized imports were thwarted by the hacking and theft of proprietary information about the processes that SolarWorld had innovated. Indeed, Chinese cyber-theft of commercially-sensitive information often takes place in industries that the Chinese government has prioritized for state support, such as solar and renewable energy.

In short, SolarWorld Americas has provided uniquely useful and valuable information to USTR for its report and submitted direct evidence of harm to its operations from the unfair and illegal Chinese trade practices.

To ensure that the Chinese companies who use this stolen solar technology and sell into the U.S. market do not profit from their theft, USTR should continue to include solar cells and modules on the list of products subject to 301 duties and should quickly proceed to implement those duties.

As USTR is aware, the Chinese government maintains numerous policies to support the development of renewable energy and has artificially supported its domestic solar industry through industrial plans.

In addition, Section 301 tariffs on these products are not likely to disrupt the U.S. economy as there are both U.S. sources, including SolarWorld, and many alternative non-Chinese import sources for these products.

Finally, I would note that the Section 201 solar safeguards investigation from earlier this year was a global action, so it doesn't penalize China for its illegal and unfair actions, such as cyber-theft.

In addition to the Section 301 tariffs, the U.S. government may wish to consider other actions against Chinese solar products which would also benefit U.S. manufacturing and U.S. jobs. For example, the U.S. government should restrict federal procurement of Chinese solar technology based on stolen data and technology and should prohibit or restrict Chinese solar cells and panels from U.S. military and veterans' installation and housing. These restrictions should extend to all Chinese companies using solar PERC technology, regardless of whether the manufacturing occurs in China or in a third country.

Section 301 duties and other restrictions on unfair Chinese solar imports are even more important now given recent negative developments in China's domestic market. The Chinese government has scaled back its support for solar installations in its own market and has canceled numerous large-scale projects. Analysts have estimated that the resulting overcapacity in China will likely cause solar prices to decline another 30 percent, harming U.S. manufacturers and American jobs. China is exporting its solar overcapacity crisis into the global market, putting severe negative pressure on prices worldwide.

Ensuring that the 301 remedy addresses Chinese solar manufacturers and benefits U.S. solar manufacturing would penalize Chinese state-sponsored cyber-hacking, combat China's efforts to monopolize solar and renewable energy manufacturing, protect U.S. energy independence and critical infrastructure, and address China's systemic illegal and unreasonable practices that burden and restrict U.S. commerce.

Therefore, we request that USTR continue to include solar cells and modules as subject to the Section 301 duties and promptly impose tariffs on those products. Thank you very much.

MR. BISHOP: Thank you, Mr. Brightbill. Our next witness is Craig Dean with

Dean Technology, Incorporated. Mr. Dean, you have five minutes.

MR. DEAN: Thank you for the opportunity to testify today. I am Craig Dean, the owner and active CEO of Dean Technology, Inc. My company is based in Addison, Texas, just north of Dallas, and we manufacture high-voltage electronics. We employ over 110 people in the USA and operate production and sales facilities in multiple other countries.

I am here today out of general concern for my business and fear on how these changes might impact the livelihood of my employees. I understand the intention of these tariffs is to promote fair and equitable trade practices with China and limit intellectual property theft. This should also help empower U.S. manufacturers, making them more competitive domestically and worldwide. I strongly support this concept.

I am concerned with the way these changes are being implemented and feel that imposing new import duties on some items will have the opposite of the intended effect. The two classifications of greatest concern to me are both for diodes, HTS Codes 8541.10.00 and 8541.40.60. Please note these are not LEDs and are not lighting products. These are basic components used in all electronics.

Increasing electrical component cost has a detrimental effect on the U.S.-based electronics manufacturers. Adding tariffs to commodity components directly increases the material cost of manufacturing almost any electronic device in the U.S. and gives a domestic sales cost advantage to overseas producers that do not face the same tariffs. Overseas producers do not face import duties when bringing many finished products to the U.S., and there are a limited number of producers of these commodity items in countries other than China.

With no competitively priced components from alternative U.S. sources, this simply makes the cost of electronic systems manufactured in the USA more expensive than a finished product from China or any other country that can be imported using the same components tariff-free.

These additional duties will force the relocation of jobs offshore. Currently, we bring all products that we sell to the U.S. prior to delivery to our end customers, not just the products we consume in American-made power supplies and assemblies. These items are brought to the U.S. for inspection, repackaging, distribution to our customers worldwide.

Faced with an additional 25 percent cost on product for our international customers, we will have no choices but to perform these steps in countries where goods can be imported without tariff and shipped to the end customers tax-free. This will be the only way to remain price competitive in international markets and will require a reduction of staff in our U.S. factories. In fact, this is what's already being forced to do with our ceramic capacitors that have been affected by the tariffs implemented on July 6th.

This also adds import tax to U.S. manufacturers producing in China. Dean Technology is a majority owner and has management control of our diode factory in China. We own and maintain all of the intellectual property. We recognize revenue on products sold from this factory in China, and this contributes to the U.S. taxes we pay.

Introducing a new 25 percent tariff will only increase our internal costs on the materials we bring to the U.S. for consumption and resale. This implementation doesn't consider ownership and control of the facility shipping products to the U.S. It only adds a blanket duty to all products, and, as a result, will end up hurting many U.S. companies.

Introducing new taxes on diodes will virtually put no pressure on China to change trade practices. Items like diodes are commodity electronics. Diodes are a basic component used in most electronics. These items have largely been in production for many decades. The general design and production methods are widely known, and there is no intellectual property that needs protection.

In many cases, the production of these items have moved exclusively to low-wage countries like China and there are limited, if any, U.S.-based manufacturers. Adding an increased tax to these items will have no impact on their availability and customers will have to purchase them from Chinese manufacturers. This will not affect the amount spent in China on these parts, providing no financial pressure for them to change any current practices.

Starting production of diodes in another country will be costly and could take up to two years before production could begin. A tax on basic items like diodes helps China strengthen their position by causing increased costs for all American-made electronics.

Thank you again for the opportunity to address the committee, and I urge you to consider moving diodes from the proposed tariffs to help protect American electronics manufacturing and all the U.S. jobs it provides.

MR. BISHOP: Thank you, Mr. Dean. Our next witness is Mike Gray with Valmet Corporation. Mr. Gray, you have five minutes.

MR. GRAY: Good afternoon. Thank you for the opportunity to participate today and present the views of Valmet Corporation. My name is Mike Gray, and I'm the senior vice president of Valmet's North American capital business operations.

Valmet is the leading developer and supplier of technologies, automation, and services for the global pulp, paper, and energy industries. We are headquartered in Finland and have 15 U.S. locations in a number of states. We supply our U.S. customers with papermaking machinery and energy products, employ 1,200 U.S. workers, and generate revenues for local communities.

We have production facilities in Finland, Sweden, and China. In our Chinese facilities, we produce components of machines that are imported to the United States for assembly and installation by U.S. workers.

Valmet shares the Trump administration's commitment to combating Chinese policies that harm U.S. companies and workers. Taking into account our mutual commitment, Valmet respectfully urges USTR to remove from its tariffs target list machinery for pulp, paper, paperboard, boilers, and related components. As I discuss here, tariffs on these products will cause disproportionate harm to U.S. interests and will not be effective to obtain the elimination of Chinese acts, policies, and practices found to be in violation of Section 301.

Duties on these products will impact U.S. consumers and jobs and result in revenue decreases for Valmet's numerous U.S. facilities, impacting investors and local governments. We, as well as our largest competitors, both of which have production facilities in China, supply papermaking machinery to large paper and packaging manufacturers of all sizes across the United States, including small and medium businesses and large manufacturers, such as Green Bay Packaging, International Paper, Graphic Packaging, and Pratt Industries. By doing so, we support the U.S. papermaking industry which employs thousands of workers across the country, including in Wisconsin and Ohio.

The proposed tariffs would require us to modify our supply chains, resulting in disruption and increased costs to our papermaking customers and, in turn, end consumers of paper products. As a result, demand for our product offerings will decrease, impacting U.S. workers and our revenues.

As to the impact on jobs, we or our customers employ thousands of U.S. workers each year to assemble and install our equipment, or for repairing or servicing equipment. In total, the duties will put an approximate risk of 6,000 direct and indirect jobs a year across the United States. Revenues will decrease in Valmet facilities. According to the first estimate based on our three-year strategy, the annual impact of tariffs will be in excess of $50 million on our sales.

The tariffs that have been implemented and the proposed tariffs are key components in the context of our negotiations with U.S. customers. We recently lost a sale and expect to be further impacted in the fall.

In turn, rates of return for investors, as well as tax revenues, across the country will decrease, impacting local communities. The magnitude of these impacts will not be offset by increases in domestic production. These products have not been produced in the U.S. for 15 to 20 years, and the U.S. does not currently have a facility that is large enough to produce our machinery. Restarting production will require the building of special facilities and significant foundation equipment and would take multiple years to implement.

What's more, the increased duties will not address concerns articulated by USTR. As to technology transfer, we do not transfer our sensitive technology to Chinese companies.

High-tech components for our pulp and papermaking machinery which are produced in China are produced in Valmet's wholly-owned facilities with a majority of these components being produced in Finland. No high-tech components are produced in Valmet's Chinese joint venture. The high-tech components of our boiler machinery are produced in Finland and imported directly to the United States.

As to licensing practices, we have only licensed technologies to our wholly-owned Chinese enterprises and our joint venture in China in which we have 75 percent majority ownership. As to Chinese outbound investment, our company has not previously been approached by Chinese investors that seek to acquire our business.

In addition, the papermaking and boiler industries in China are dominated by private, as opposed to state-owned, enterprises and are not targeted by China in relation to concerns identified by USTR. Also, we do not operate in any of the ten target industries identified in the Made in China 2025 plan.

In short, the concerns USTR seeks to address do not apply to our operations in China and, to our knowledge, do not apply to those of our largest competitors. The tariffs will only cause a disproportionate impact on U.S. interests, including on jobs and consumers, as I described above.

Thank you again for this opportunity to present our views on this matter of serious concern to our company, and I look forward to your questions.

MR. BISHOP: Thank you, Mr. Gray. Our next witness is David Isaacs with the Semiconductor Industry Association. Mr. Isaacs, you have five minutes.

MR. ISAACS: Good afternoon. I'm David Isaacs with the Semiconductor Industry Association. And as many of you may know, semiconductors are a basic building block of the modern economy and a key enabling technology of all modern electronics, ranging from telecommunications to cars to computers and other products.

Fortunately, the U.S. is the global leader in this industry. U.S. companies have over half the market share. We employ over 250,000 employees in the U.S. and over a million indirect jobs. And for purposes of this hearing, it's important to emphasize we are America's fourth-largest export industry and we enjoy a surplus with most of our major trading partners, including China, at about $2 billion.

So, we support the goals of the 301 investigation and share the concerns about the IP violations and unfair trade practices of China, but we strongly believe that tariffs are an ineffective tool in addressing those concerns.

First, they target U.S. companies and fail to adversely impact Chinese companies. And, secondly, we believe that it will not change the behavior that we're trying to target. So we request that semiconductors, semiconductor manufacturing equipment, and related products be removed from the tariff list. That's codes 8541, 8542, and 8486.

So, just elaborating on some of these points very quickly, the tariffs will require U.S. companies to pay tariffs on their own products. Most of the products subject to the tariffs are researched and designed or manufactured in the United States. And Chinese companies, in contrast, export virtually no products in these areas to the United States. So, U.S. companies will be paying tariffs on their own products.

The reason we import some products from China is a final stage in the process called assembly test and packaging, some of which is conducted in China. That step in the process has largely migrated to the Asia-Pacific region decades ago, including China, and this was discussed in a prior panel with the witness from Cree, one of our member companies.

This assembly test and packaging is the final step, and it's the lowest value step in the process, approximately ten percent of the value of the finished product. And it does not involve the transfer of valuable intellectual property, but, as the gentleman testified, it is the final step in getting an assembly ready, a finished semiconductor ready to be placed on a circuit board so it can be integrated into a final product.

So, some of that assembly test and packaging takes place in China, and the imposition of tariffs will simply raise costs on U.S. semiconductor companies and harm our competitiveness. At the same time, it will harm the competitiveness of our downstream customers that rely on semiconductors integrated into their products. And many of those sectors are the same sectors targeted by the Made in China 2025 initiative, such as aerospace and autos and robotics and ICT technologies. So this will hurt the overall competitiveness of the very companies we're trying to strengthen.

And at the same time, tariffs on manufacturing equipment will make manufacturing in the U.S. more costly and benefit our global competitors. We still do about half our manufacturing in the U.S. and we want to maintain a robust presence in manufacturing.

So the tariffs, while it will harm U.S. companies, will be ineffective in modifying the behavior of the Chinese wrongdoers, and we urge USTR to consider alternative approaches that would include strengthened IP enforcement and WTO cases, as well as multilateral action with our allies in addressing these problematic Chinese policies.

So, again, we would urge that semiconductors, semiconductor manufacturing equipment, and related products be removed from the tariff list, and we look forward to working with USTR and the administration going forward. Thank you.

MR. BISHOP: Thank you, Mr. Isaacs. Our next witness is Josh Kallmer with the Information Technology Industry Council. Mr. Kallmer, you have five minutes.

MR. KALLMER: Thank you to the Chair and to the interagency panel. It's a pleasure --

MR. BISHOP: Can you lift your

microphone and speak directly into it, please?

MR. KALLMER: Oh, sure. Is that better?

MR. BISHOP: A little closer. That's great. Thank you.

MR. KALLMER: It's great to be here. I appreciate having the opportunity to testify. I'm going to try to keep my remarks relatively brief, in large part because I delivered substantially the same message two months ago.

We represent 67 of the world's most innovative companies spanning the technology sector, and they have equity in this issue not just because it affects their companies but because it affects the companies of all of their customers across the economy. So my remarks are necessarily relatively high level.

Three main points to make about what the administration appears to be embarking on. The first is that, as I said last time, it's going to end up hurting precisely the people that we understand you're intending to help. In other words, we have seen the Section 301 investigation, and, in fact, the March 22nd report was an excellent example of this, as casting a light on what we have called a tapestry of laws, policies, and practices that China has undertaken for years to discriminate against foreign companies, compel the transfer of technology, and other ways to put a thumb on the competitive scale.

There's no evidence that imposing tariffs will change Chinese behavior in these areas in a meaningful way, and, in fact, while not doing anything on the Chinese side, it will almost certainly, as I mentioned, hurt the people here, the firms and the citizens, that we intend to help.

We've already had good examples on this panel from Andy and from Craig and from David. And so whether you're talking about consumer products, all of the consumer products that things like sensors are built into, whether you're talking about all of the electronic products that diodes are a part of, whether you're talking about the semiconductor industry, we are essentially putting a tax on ourselves that will hurt consumers. It will hurt ordinary people at the store. It will hurt people looking for a job. It will hurt companies trying to export. It's as simple as that. And so the first point we would make and repeat is to please avoid a self-inflicted wound that this appears to be.

The second point, which I made last time as well, is that shifting components of the supply chain is really easier said than done. Moving a physical plant often takes years. It's not something that can just be done at the drop of a hat. Even renegotiating contracts and doing more intangible things can take months. And so the experience for most of our companies, at least, if not all, is that it is not a practical business operation in the event that sourcing things from China becomes difficult or more expensive.

The third point that I'd make is that the burden of proving that this is a good idea should fall on the government. It shouldn't be up to industry and up to the constituents and up to the people that are affected by the government's policies to prove that it's a bad idea. We can do that, and I think we have done that, but really it's incumbent upon the government and incumbent upon the administration to develop metrics, to collect data, and to make a showing if it genuinely believes that this is working.

And so we will respectfully implore our government colleagues to be prepared to provide that data, and in relatively short order, to make the case not just to our companies but really to the American people that imposing tariffs on China, on products from China, is worth it, that it's effective, and that it will actually do something meaningful in changing the Chinese behavior that really is the subject of this entire investigation. Thank you.

MR. BISHOP: Thank you, Mr. Kallmer. Our next witness is Dean Pinkert on behalf of the Solar Energy Industries Association, Incorporated. Mr. Pinkert, you have five minutes.

MR. PINKERT: Members of the Section

301 Committee, thank you for the opportunity to testify today. I am Dean Pinkert, partner at Hughes Hubbard & Reed, representing the Solar Energy Industries Association, or SEIA, the national trade association for solar energy in the United States with approximately 800 member companies employing more than 100,000 Americans.

I am here today to ask you to consider removing from Annex C to the proposed Section 301 order the subheading 8541.40.60 entitled "Diodes for Semiconductor Devices Other than Light-Emitting Diodes." This HTSUS code covers core solar photovoltaic products, namely unmounted chips and wafers, solar panels and modules, and solar cells not assembled into panels and modules. At the ten-digit subheading level, that's 8541.40.60.10, 8541.40.60.20, and 8541.40.60.30.

USTR's proposed action, which covers subheading 8541.40.60, if left unchanged, would result in the imposition of a 25 percent tariff on core solar wafers, cells, and modules from China.

On behalf of the American solar energy industries, SEIA strongly supports the removal of this subheading from any finalized action.

We oppose this tariff for two main reasons. First, we believe that strong and dynamic trade mechanisms are already in place to increase the cost of importing these goods from China, one of which became effective just this year with the imposition of Section 201 global safeguard protections.

Second, we do not believe that inclusion of solar wafer, cells, and modules would be effective to "obtain elimination of China's harmful acts, policies, and practices," which is the purpose of Section 301. Put simply, the existing trade measures are working and Section 301 tariffs are unlikely to exert any additional leverage on China, but risk instead further harm to the U.S. solar industry.

Allow me to expand on each of these points. Imports from China of the dominant type of photovoltaic products are already subject to the highest overall level of U.S. duties of any country thanks to the combination of two anti-dumping duty orders, two countervailing duty orders, and one safeguard order. We note that, despite solar receiving prominent mention in the report of Section 301 investigation, USTR's original proposed action did not include the HTSUS code in question.

Although we are not privy to the rationale for the addition of the solar photovoltaic goods to Annex C, it is clear that the administration previously did not consider it necessary to include them. We do know that after the release of the original list of covered goods, and before the publication of the additional $16 billion in goods under Annex C, the Chinese government announced it was cutting the amount of solar goods it would use internally. Some reporters speculated that this would lead to more solar goods from China entering the U.S. market.

To the extent that this panel is concerned about that possibility, the existing orders are designed to prevent any potential harm to the domestic industries. The antidumping duties can be adjusted retroactively to take into account changes in pricing of solar cells and modules in the U.S. market.

As a result of the joint action of all of the existing trade restrictions on solar imports from China, such imports are subject to the highest level of tariffs imposed on imports of solar products from anywhere in the world. Those trade measures are working to subdue imports from China, and we've already seen a massive reduction. Chinese cells and modules accounted for, roughly, one percent of U.S. imports of these products from January through May of this year, the most recent data available.

This leads directly to our next point. Because of the reduction in imports of Chinese solar goods, they're a poor choice for inclusion in the Section 301 action. If the intent of the administration in formulating a remedy is to have a significant impact on China, including on products involved in the Made in China 2025 program, covering solar cells and modules affords the United States little bang for its buck, and the minimal impact on China of their inclusion would come with a significant unintended downside.

The ink is barely dry on the Section 201 safeguard measures that apply equally to China as to any other country. Adding another 25 percent tariff on solar goods, even on a country that is a minor exporter of solar goods to the United States, will risk greater economic loss. Even the loss of a single job is not worth the price of piling new barriers onto existing ones that are already having a chilling effect on U.S. imports of solar products from China.

Accordingly, SEIA respectfully requests that this committee remove subheading 8541.40.60 from Annex C. Thank you.

MR. BISHOP: Thank you, Mr. Pinkert. Our final witness on this panel is Steve Korn with Kimball Electronics, Incorporated. Mr. Korn, you have five minutes.

MR. KORN: Good afternoon, committee members. My name is Steve Korn. I am the vice president of North American operations for Kimball Electronics. On behalf of our entire company, and particularly the 1,000 U.S. employees whose livelihoods could be affected by new tariffs, I thank you for the opportunity to provide remarks today.

Kimball Electronics is a leading manufacturer of durable goods electronics serving a variety of industries on a global scale with total sales of approximately $1 billion. As stated earlier by Mr. Dean and Mr. Isaacs, who we are a direct customer for and the companies they represent, we are here today to request that USTR remove HTS codes covering diodes and electronic-integrated circuits from the proposed list of products to Section 301 duties. These are 8541, 8542 codes.

I do not exaggerate when I say that 25 percent duties on these products will kill domestic durable electronics manufacturing. We have domestic manufacturing facilities in Indianapolis and Jasper, Indiana and Tampa, Florida. These facilities employ approximately 1,000 employees and have revenue annually of about $300 million.

We focus on manufacturing for customers in the medical, automotive, and industrial markets who require highly reliable and durable electronics and their products. For the diodes and the electronic integrated circuit parts that we use in our American manufacturing, there is no readily available substitute from any country other than China. These are not Chinese companies that we are buying integrated circuits from but U.S., Japanese, Korean, and European companies that are manufacturing in China. Without access to these parts sourced from China that are subject to Section 301 duties, we cannot continue to competitively manufacture in the United States. If these parts are subject to the 25 percent duties, it will put all U.S. electronic manufacturing at a significant disadvantage to the rest of the world.

Kimball has been very successful at

winning new automotive, medical, and industrial contracts over the past five years, and we have invested significantly in our U.S. manufacturing footprint, over $12 million in the last two years. The 25 percent duties on these products only affect U.S. manufacturing and will force Kimball and our customers to assemble products using these parts in other geographic areas that can be delivered to the United States with no tariff impact.

The cost impact on Kimball and our customers cannot be absorbed. In one specific example, Kimball was awarded a significant program that supports a large U.S. OEM with their next generation of electronic power steering. The previous version was built in Mexico. Kimball was able to provide a very competitive total cost of ownership price to this customer which allowed them to source this product in the U.S. These tariffs with product from list one and list two will have a $1.87 impact on this very product and a cost impact of $1.87 million annually to our company and to our customers. The program has a life of seven years, and that total impact is over $13 million that will impact us or our customers. We believe with high confidence that we will be asked to move that product to another lower cost geographic region, such as Mexico.

Even if there were domestic substitutes, there are two nearly insurmountable barriers unique to our industry that make domestic substitutes untenable. The parts qualification is first. We could not switch our supply chain with the speed necessary to do business because we have a very lengthy qualification process. Thorough qualification of new suppliers and extensive tests of new parts is critical in our business. The safety and quality of our component parts is literally a matter of life and death, the parts going to medical lifesaving devices and safety-critical automotive application such as antilock braking and electronic power steering.

Second, we are facing worldwide component shortages today. Currently, there is a worldwide shortage of most of these parts, and we import from China due to increased demand driven by strong worldwide economic growth. A significant number of the parts have lead times of 40 weeks to 52 weeks. We currently have to work with our suppliers around the world on a daily basis to beg and borrow to secure a supply to keep our lines running. As a critical supplier to industries, such as automotive, our inability to produce could easily shut down vehicle assembly lines to the United States.

There are electronic manufacturing service companies in many other countries just like Kimball Electronics that manufacture the finished goods such as printed circuit board assemblies similar to these. These manufacturers will continue to have access to these Chinese component parts without 25 percent duties. This puts our American manufacturing at a severe disadvantage. In fact, Kimball Electronics itself has a Mexican facility. We have already had inquiries from our customers about moving production from our U.S. facilities to our Mexican plant. We imagine there are many more U.S. companies who are similarly situated.

I cannot stress this enough: we do not want to relocate our American manufacturing, but our hands are tied. We simply cannot absorb the 25 percent increase of the price of materials. I worry the USTR tariffs are trying to punish China but are actually assisting other countries at the expense of U.S. manufacturing.

We applaud the USTR's focus on Chinese intellectual property violations and shortfalls in the China system. We have experienced firsthand the counterfeit electronic parts from China. We urge the USTR to consider narrowly tailored solutions that would encourage Chinese intellectual property reform. The blunt instruments of tariffs hampers U.S. manufacturers such as our own and makes us less competitive globally.

Thank you.

MR. BISHOP: Thank you, Mr. Korn. Mr. Chairman, that concludes direct testimony from this panel.

MS. PETTIS: Good afternoon. This is a question for Mr. Barnauskas from Banner Engineering. You mentioned that you import component commodities from China for use in the U.S.-manufactured high-technology sensors. What other international sources of supply exist for these types of component commodities?

MR. BARNAUSKAS: We manufacture our sensors in China. The reason we're in China is for the Chinese market, so we basically have an assembly line over there to build finished good products. And because we have such a wide variety of products, some are commodity and some are high tech. So the plant in China builds the commodity sensors for distribution worldwide, and then they also provide subassemblies for us in the U.S. for our U.S.-based manufacturing the higher tech products. And that's pretty much how the whole supply chain works.

MS. PETTIS: Okay. Thank you.

MS. HOLLAND: This is a question for

Mr. Brightbill from SolarWorld Americas. You testified about SolarWorld's general support for the proposed additional duties. Can you please elaborate on the potential effects of the additional duties on consumers of solar products? Thank you.

MR. BRIGHTBILL: Sure. As we've stated in our submissions, we think that the imposition of duties would not harm demand for solar and would not harm consumers. In fact, the announcements by SEIA, the Solar Energy Industries Association, point to strong demand in the United States, that total U.S. installed capacity is expected to more than double over the next five years, and the long-term projections are good, as well.

So, demand for solar remains strong. We think the impact on consumers would be minimal. On the other hand, imposing these duties would have strong beneficial effects for domestic manufacturing and domestic jobs, which is an important goal of this administration.

MS. PSILLOS: My question is for Mr. Dean of Dean Technology. You testified that a limited number of producers of these commodity items -- that there are a limited number of producers of these commodity items in countries other than China. Can you provide more details about these other countries?

MR. DEAN: They are available in smaller volumes from certain countries, but, just as he testified as well, there is limited supply of these type of commodity items. The main source of diodes is China, where they can do large volume packaging, which is the lowest cost portion of diode production. And a typical diode is used in the basic power supply for everything.

In our wholly-owned factory in China, we do make a specialty type of diode, and they're really not in any other Asian or low-cost regions other than China.

MS. PSILLOS: Okay. And then just as a follow-up, do those diodes have to go through some kind of -- like what is the type of testing process that you have to do if you switch suppliers and how long does that take?

MR. DEAN: Well, first, it's our own factory that we're mainly using, so we would have to have our designs transferred and our intellectual property transferred to another factory. The qualification process is quite extensive because our customers are making a lot of medical equipment, from x-ray machines to defibrillators and other types of high-tech devices, so you can't just change a component that goes into it.

So we would first have to do our own qualification after we transferred the technology, after we've set up a factory, and then our customers would have a qualification period. We estimate about two years for us to set up a new factory in another country, and our customers will take anywhere from six months to two years to finish a qualification. But that does put us at a significant disadvantage because, while a customer could qualify our product, they also could qualify a competitor's product and we could lose the business during that duration.

MS. ROY: Okay. This question is for Mr. Gray, Valmet Corporation. You stated that no U.S. facility is large enough to produce your machinery. Do such facilities exist in other countries besides China?

MR. GRAY: Yes, thank you. Yes, we have facilities, and our competitors have facilities in Europe for producing this type of equipment, and so that's where most of the equipment would be moved. You know, the equipment sizes, some of it can weigh as much as 150,000 pounds, so it takes substantial equipment for any machining process or even just lifting and loading equipment that is not available any longer in the U.S.

MR. ABAJIAN: My question is for Mr. David Isaacs on behalf of SEIA. Can you provide additional detail or evidence to support your claim that China's companies export almost no semiconductors to the U.S. market?

MR. ISAACS: I'm not quite sure how to

demonstrate that. It's based on official data. China currently comprises about five percent of the market worldwide in semiconductors, and that is almost entirely for domestic consumption. They are the location of the global electronics assembly chain, and so their domestic semiconductors often are not as advanced as products from other companies in other countries, and, therefore, they typically go into lower-end products. The products that are being exported to the U.S. are for integration into more advanced products, such as in the aerospace industry, robotics, industrial machinery, automotive sectors, and require more advanced semiconductors that are not produced in China.

CHAIR TSAO: This question is for Mr. Kallmer. You testified that it's ITI's view that imposing tariffs is not an effective way to obtain elimination of the unfair trade practices, policy, and acts. So, in your view, what would be the best courses of action to obtain the elimination in light of our previous experience, the government's experience with previous rounds of negotiation?

MR. KALLMER: Yeah, it's a great question. It would be great if it could be summed up -- if we could sum up in one word what we are in favor of in the same way we sum up in one word tariffs, what we are against. It's not that simple. But, basically, as we've said both in submissions to the government, in the press, and in other settings is that these are complex structural, systemic, long-term policy challenges that not just U.S., companies but companies from around the world, are facing in China. In many ways, they cut to the heart of China's economic model, and so there are no illusions about this.

The effort that is required, though, needs to be similarly expansive in scope and ambition and coordination. And so above all, as we have said for months, this can't be done without partners, this can't be done without the E.U. and Japan and other generally like-minded economies aligning with the United States and putting pressure on China.

Some of that may potentially be done

through the WTO dispute settlement system. It's very likely that there are actual claims that could be brought there under WTO agreements that have not yet been explored, at least to the public eye. There are also opportunities for other kinds of diplomatic pressure. And, in all cases, drawing on the aligned interest of industry across sectors and across the globe to do it.

There are examples of this working in the past. So we've got the example of WABI (phonetic) several years ago, which you're probably familiar with. We've got the example of Green Dam from 2009 when China, purportedly for social protection purposes, required the installation of certain software and foreign technology products, but it really appeared to be a tool of surveillance. We have the example of China's using the term "secure and controllable" to require that companies, ICT companies interacting in different sectors, primarily banking and insurance, submit their equipment and their source code to examination.

In each of those three cases, it was not clean, it was not immediate, but coalitions of governments, including the U.S. government working with coalitions of the business community, including our group and many others, David's is a good example of it, have worked together over a longer period of time and have realized success. It's not pretty, but, to our mind, those are the indispensable ingredients of success here.

MR. ABAJIAN: Question for Mr. Pinkert on behalf of SEIA. Given the existing tariffs that you cite in your testimony, in addition to China's, as you said, one percent market share in the United States, could you elaborate on why you believe that the proposed tariffs under Section 301 actions will lead to further job losses in the solar sector?

MR. PINKERT: Sure. Thank you very much. Well, first of all, SEIA estimates that 8,000 positions have already been lost in the United States during the first few months of the Section 201 safeguard. In addition, it estimates that more than 20,000 U.S. jobs will be lost domestically as that safeguard unfolds over time. So we're already in a situation where we're losing jobs as a result of the imposition of tariffs on these imports.

Now, admittedly, Section 201 is a global safeguard. And what you're talking about, for purposes of Section 301, is China-specific. But even though China is already way down, based on the data that we have on the first few months of this year, still the increase that would occur as a result of the tariffs could further diminish supply and have an effect on U.S. companies that rely on those imports.

MR. ABAJIAN: Thank you.

MR. WINELAND: And, finally, Mr. Korn, you mentioned in your testimony that, for the parts that you use in your American manufacturing, there's no readily available source from any country other than China. Why is there no U.S. supplier or third-country supplier for these products?

MR. KORN: Similar to what Mr. Isaacs

said, most of the manufacturing was set up years ago in China, moved out of the U.S., and they set up their final packaging processes and testing processes in Asia. There is some in the Philippines, but the specific products that come out of China are unique. They're not common where you can get them from another country. They are only being manufactured in China today, so we can't go source it another country because it's not available there.

CHAIR TSAO: I have a follow-up question. This is for any of the witnesses. My understanding is the packaging part of the production process is the least value-added part of the process and the least technologically complicated, right? If that is the case, then what is the challenge of actually setting up a packaging operation in a third country, a non-China third country? What is the challenge there?

MR. DEAN: I can answer part of that. The main challenge is that it is a massive process. If you've ever walked through an electronics packaging factory, there are thousands of employees, there are thousands of machines. It looks like an Army building electronics. And just to move the machines, set them up, just do the alignment, just to get all the details worked out, the chemicals that are used in the process sourced from another country, and all the other raw material sourced in another country, that is an extensive process for any company to go and have set up.

MR. BARNAUSKAS: If I may add on, I'll touch on the supply chain. The electronic supply chain is really tight. The capacity worldwide is very tight. It's no exaggeration that lead times for these parts are 40 to 52 weeks. There literally is not enough capacity worldwide right now. So moving out of China isn't an option.

MR. DEAN: We need more factories in addition, too.

MR. BARNAUSKAS: Correct.

MR. KORN: And our suppliers are putting them on, but, as stated, the capacity is extremely tight and these companies aren't incentivized to go do it somewhere else because the majority of the parts they sell are going into other countries other than the U.S. They're going into China, they're going into Thailand, they're going into Mexico, or a smaller portion of the total consumption of these type of electronic components.

MR. DEAN: And a lot of other Asian countries don't have the infrastructure to support the electronics industry. You need a reliable source of electricity. You need a reliable source of constant, clean water, and you need a reliable way of disposing the used and dirty water. Those are all parts of the process of manufacturing electronic components. It isn't a very clean process, and, if you don't have the infrastructure to support it, you can't just pick it up and move it to another country. That takes time to do.

MR. GRAY: And I'll say certainly in the paper industry we face the same thing. While we do have manufacturing facilities in Europe, the delivery times of our equipment right now are 22 to 24 months, as well as our competitors'. It could easily go out to 32 to 34 months should we try to move equipment there, as well as the cost to our customers, and some components being higher than what the tariffs are.

MR. ISAACS: If I could just jump in, our data indicates that 22 percent of the assembly test and packaging is located in China. So it's located in a range of countries. But in addition to the points just raised, I think Mr. Dean and Mr. Korn earlier had mentioned the added cost of qualifying new factories is a significant cost, particularly if the product is going into products that are related to health and safety and the like. That can be quite a burden.

But the bigger picture point I would emphasize is that U.S. companies have a competitive advantage by leveraging that global supply chain, and we should be focused on maintaining and strengthening the higher value steps of the process, the research, the design, the manufacturing that does take place here in the United States.

MR. BISHOP: We release this panel with our thanks, and we invite the members of Panel 5 to please come forward and be seated. We would also invite the members of Panel 6 to come forward and sit in our holding area. Thank you.

(Pause.)

MR. BISHOP: Our first witness on this panel is Randy Busch with Value Vinyls, Incorporated. Mr. Busch, you have five minutes.

MR. BUSCH: Good afternoon, members of the committee. I'm Randy Busch, owner and president of Value Vinyls, Incorporated. I'm here today to discuss the reason USTR should remove certain fabrics that Value Vinyls imports from the proposed list of products such to additional tariffs. The HTSUS subheading at issue is 3921.90.11, which Vinyl Values discuss more fully in its written comments.

I want to provide you a brief background on Value Vinyls. Our company is one of the largest importers of vinyl fabrics used for industrial print media and recreational markets in the United

States. Value Vinyls is a thoroughly American second generation company based in Grand Prairie, Texas. Established in 1984, the company employs 22 people in our 50,000-square-foot office and warehouse and uses the services of five other warehouses spread across the U.S. Additionally, we have ten independent sales representatives across the United States.

The company started like most small businesses, in the master bedroom of my parents' home. We imported four containers of vinyl fabrics that first year. By listening to our customers and focusing on their needs, we now import over 400 containers of vinyl fabrics a year with hopes to grow more.

The goal of Value Vinyls is to provide coated and laminated fabrics to the U.S. consumer. In order to meet that goal, the company purchases vinyl fabrics globally, including from China. Our core products affected by these tariffs are produced by coating or laminating PVC to polyester yarn for stability and strength. These are then used for athletic mats, truck tarps, tents, awnings, banners, and signs.

Imposing a 25 percent tariff will negatively impact Value Vinyls and the American consumer by significantly increasing its cost of operating in the United States. We could not absorb this additional duty and would be forced to pass it downstream. Although the company understands the philosophy of the administration to target industries and products that China aims to support in its Made in China 2025 strategy, targeting vinyl fabrics would not impact China's technological advancements and serves only to hurt the American consumer.

As more thoroughly detailed in our written comments, the above classification should be excluded for the additional tariffs for several reasons. First, these fabrics are old technology. Second, U.S. suppliers of these fabrics cannot sufficiently supply the industry. And, third, there are not enough suppliers of vinyl fabrics outside of China.

The fabrics imported by Value Vinyls that are targeted for additional tariffs cannot possibly be considered high-level technology that China is using to advance its Made in China 2025 strategy. It is not leapfrog technology.

The tariff subheading at issue covers plastic sheets and films but also includes fabrics that have been coated or covered with plastic. This type of fabric is essentially cloth with some plastic coating, and it has been around for over 60 years. This fabric is made by coating or laminating polyester yarn with PVC. Sixty years ago, this fabric replaced using canvas for tarps and tents. This cannot possibly be considered advanced technology.

Additionally, the U.S. fabric industry serves a different market than Chinese imports and has limited capacity to provide the fabrics imported by Value Vinyls. The U.S. producers cater to a niche market. They primarily service the U.S. military because the Defense Department requires domestically-produced goods, particularly clothing and fabric, so as to be compliant with the Berry Amendment.

Further, the domestic industry could only support an additional 20 percent of volume to serve commodity, non-technical fabrics of the type our customers require. Therefore, the proposed duties would not benefit the domestic fabric industry.

Finally, sufficient supply does not exist outside China. Although there may be some excess capacity in some other countries, it is nowhere close to the capacity that would be required to replace vinyl fabrics from the Chinese market.

Irrespective of capacity, it would be a daunting task to move our business to a company outside China. As color-matching and consistency are a major issue in our business, we would have to re-evaluate our entire product offerings that range from 5 to 35 colors per product over a range of 30-plus product lines.

To put it into perspective, changing one color alone can take up to a month. If the duties are imposed, forcing Value Vinyls to seek a non-China source, it would be incredibly costly and would severely harm our business, employees, and consumers.

In conclusion, we do not believe that imposing tariffs in the imports described above would influence the Chinese government to alter or change the policies and practices identified by USTR in its Section 301 report. Instead, the additional tariffs proposed would damage U.S. companies and consumers. Harming a company like Value Vinyls which is investing heavily in the American economy should not be the goal, nor unintended consequence, of the tariffs.

Therefore, Value Vinyls urges the USTR not to impose the 25 percent tariff on vinyl fabrics classified under HTSUS subheading 3921.90.11.

Thank you for the opportunity to testify today. I'd be glad to answer any questions you may have.

MR. BISHOP: Thank you, Mr. Busch. Our next witness is Robert Hinsch of Top Value

Fabrics, Incorporated. Mr. Hinsch, you have five minutes.

MR. HINSCH: Good afternoon, members of the committee. I am Robert Hinsch, vice president of Top Value Fabrics. I am here today to discuss the reasons the USTR should remove --

MR. BISHOP: Lift your microphone, please.

MR. HINSCH: Excuse me. List of products subject to the additional tariffs. The top of my written testimony contains the HTSUS subheading at issue, which Top Value Fabrics discussed more fully in its written comments.

Top Value Fabrics is one of the largest suppliers of vinyl fabrics used in recreational, industrial, and advertising markets in the United States. Vinyl fabrics are textile fabrics that have been coated or laminated with plastic materials, although HTSUS subheading 3921.90.1950 covers plastic sheets and films, our company's imported vinyl fabrics fall in this tariff provision.

Top Value Fabrics is a proud American company based in Carmel, Indiana. Established in 1974, the company employs 73 employees across the United States and supplies an estimated 8 to 12 percent of the laminated and coated textiles market. The company is also 100 percent employee-owned since 2010, which provides more economic security for all our employees.

The goal of Top Value Fabrics is to supply consistent quality fabrics to American textile manufacturers. In order to meet that goal, the company purchases textile products from the United States, as well as globally, including China. Imposing a 25 percent tariff will negatively impact Top Value Fabrics and the American consumer by significantly increasing the cost of our customers and the products.

Although the company understands the philosophy of the administration that target industries and products that China aims to support in its Made in China 2025 strategy, targeting vinyl fabrics does not to inhibit China's technology advancements and only serves to hurt the American consumer.

As more thoroughly detailed in our written comments, the above classification should be excluded from the additional tariffs because it is old technology, U.S. suppliers of these fabrics cannot sufficiently supply the industry, and there isn't sufficient supply outside of China.

Top Value Fabrics imports targeted for additional tariffs cannot be considered a high-level technology that China is targeting to advance its Made in China 2025 strategy. In no way is it a leapfrog technology. The manufacturing process involves large and expensive production lines but is very basic. It involves weaving a basic fabric which is then spread-coated or heat laminated with plastic. This process has not seen material improvements for many decades.

The U.S. industry serves a different market than Chinese imports. U.S. producers almost entirely serve markets that require domestically-produced products, like the U.S.

military, or more technical products. Only a few laminators and coaters exist in the U.S. today, and they have limited capacity, only enough to handle about 10 to 20 percent of commodity vinyl fabrics. Increasing capacity in the U.S. would be very difficult and highly disruptive to the supply chain.

Obtaining the needed permits would be difficult due to the various ordinance and EPA requirements. Additionally, it would take no less than two years to obtain and install the equipment needed to manufacture the vinyl fabrics required by Top Value Fabrics.

Finally, finding workers would be a challenge and razor-thin margins on these commodity products would make the investment unattractive.

Additionally, sufficient supply does not exist outside of China. Similar to the United States, suppliers in other countries would only be able to serve a small portion of the overall market since China is the largest producer of these products. For instance, we have a Korean supplier with limited capacity. Recently, one of their customers made tents for the World Cup. This additional volume demand increased our lead times from four weeks to three months. Increasing supply capacity in other countries would also face the same difficulties the U.S. market would face. Given these capacity issues, it would be prohibitive for U.S. and our competitors to move our supply chain outside of China.

In conclusion, imposing tariffs on these imports described above would not in any way influence the Chinese government to alter the policies and practices identified by the USTR in Sections 301 report. Instead, the additional tariffs would damage U.S. companies and consumers. Harming a company like Top Value Fabrics, which is investing heavily in the American economy, should not be the goal or consequence of the tariffs.

Therefore, Top Value Fabrics urges the USTR not to impose a 25 percent tariff on products classified under HTSUS subheading 3921.90.1950. Thank you for your time and attention. I would be glad to answer any questions that you may have.

MR. BISHOP: Thank you, Mr. Hinsch. Our next witness is Ed Jenkins with Impak Films US, LLC. Mr. Jenkins, you have five minutes.

MR. JENKINS: Good afternoon. We appreciate the opportunity to be heard today. I am Ed Jenkins, business director for Impak Films US, LLC, a United States importer of polyester film.

Impak Films sources commercially-available polyester film and sells exclusively to the flexible packaging industry, predominantly for food products. Impak also could develop products with manufactures to meet specific customer and market requirements.

PET film is used in a number of flexible packaging applications to include packaging of condiments, produce, and many other consumables. Today I would like to focus on certain products within the PET film category used in the flexible packaging industry and why the imposition of tariffs on these products would not be effective to meet the goals of Section 301. I will also explain the disproportionate harm to U.S. interests should tariffs be imposed on these products.

I will start with an overview of the distribution of PET film for flexible packaging. Impak sources PET from manufacturers in China and sells to converters in the United States. Converters print and laminate polyester film, making the flexible packaging products. American Packaging, Printpak, and Bemis are some examples of converters based in the United States.

Our customers, the converters, sell to CPGs, such as General Mills, Nestle, and Kellogg. They package food and other consumables that are sold to retailers and ultimately to U.S. consumers. I wish to emphasize that the end users here are U.S. consumers, and I strongly believe that U.S. consumers will ultimately pay the duties that are being proposed, as these costs are passed through the flexible packaging industry.

Impak sources a particular type of PET

film known as PVC-coated polyester from China. The coating increases the barrier properties of the film, which reduces the pass-through of oxygen and moisture that extends the shelf-life of the packaged food or consumable.

One of our customers supplies converted packaging to a U.S.-based producer of air freshener products. The PVC-coated film is used in packaging that must meet stringent performance requirements to deliver the quality and shelf life of the air fresheners.

Over the past 15 years, our customer has evaluated numerous products from a range of global suppliers, but only two manufacturers, both in China, have products that meet the performance requirements of the application. Aside from China, there are no known manufacturers in the U.S. or elsewhere that can meet these requirements.

With years of experience, the Chinese manufacturers now have the know-how and capacity to supply our customer. Should the tariff on PET film go into effect, the Chinese PVC-coated films will become prohibitively expensive and our customer will be forced to find other sources, which, given their previous experience, is unlikely.

Even if a source can be identified, the customer will spend considerable time and money to conduct extensive testing with new manufacturers' products in the hopes that they will ultimately qualify. In the absence of a lower cost alternative film, these costs will be passed on to the CPGs and, ultimately, the consumer.

While there are other examples I could provide that illustrate the challenges our customers and the industry would face, I would like to take the remainder of my time to explain why the imposition of tariffs on these products would not be effective to meet the goals of Section 301.

The proposed tariffs are intended to eliminate unfair practices in China related to technology transfer, IP, and other discriminatory practices that restrict or burden U.S. commerce. The tariffs would be ineffective because the manufacture of coated films is not in the realm of any such advanced technology. The coating equipment required is readily available globally and the production of coated PET film for flexible packaging does not involve technology-related negotiations with Chinese companies, so there is no opportunity to undermine U.S. companies' control over technology in China in this industry.

The Chinese manufacturers of the PVC-coated film products have developed specialized knowledge with respect to the products I discussed based on their years of production experience and several rounds of testing to meet our customers' specifications. Neither we, nor our customers, have been forced by the Chinese manufacturers or the Chinese government to share any IP, enter into restrictive licensing agreements, required to form joint ventures, or otherwise limit competition. However, we have assisted several of the coaters with testing protocols and guidance to ensure the products comply with FDA food safety and other regulations, as well as our customers product requirements.

In short, the unfair practices in China do not impact the film products sourced for the flexible packaging industry, so imposing tariffs on these products will not change Chinese practices or policy.

That concludes my testimony. We appreciate the opportunity to be heard today and welcome any questions.

MR. BISHOP: Thank you, Mr. Jenkins. Our next witness is David Koerner with Kittrich Corporation. Mr. Koerner, you have five minutes.

MR. KOERNER: Thank you. I am David Koerner, general counsel for Kittrich Corporation, and I'd like to thank the members of the Section 301 Committee for giving me the opportunity to testify with respect to the effect that the proposed additional duties may have on my employer, Kittrich Corporation, and its employees, customers, and partners in commerce.

We support efforts by the administration to facilitate fair trade, but do not believe that the tariff applying to materials we import from China will necessarily achieve the optimal results for America and its consumers.

Kittrich Corporation is a privately-held California corporation headquarter in Pomona, California, which is in Los Angeles County, and we've been in business since 1978. We also have facilities in New York, Georgia, and Kentucky. We manufacture and/or distribute various consumer and household products available at reasonable cost through a variety of sources, including e-commerce sites such as Amazon.com, mass market retailers such as Walmart and Target, and other easily accessible retail channels.

Over the years, millions of Americans have used our various products, such as our Con-Tact brand shelf liner, protective covering, or non-slip rug pads, whether for home improvement, home decor, safety, and more, to help improve their lives and lifestyles. Our products help, among other things, to protect surfaces, keep things clean, create smooth surfaces, and serve a variety of other purposes. We offer affordable and easily-available household products to American consumers.

Kittrich believes that subjecting the products and our product components that we import from China will only serve to raise prices for U.S. consumers without adequately reducing or eliminating the unreasonable and/or discriminatory practices, actions, and/or policies that China may be implementing against the U.S.. And we, therefore, respectfully request that products and/or components that we import from China not be subject to the additional duties or tariffs being considered pursuant to Section 301.

There's about 51 items, so I won't list them all, the HTSUS codes, but they basically represent a variety of self-adhesive and/or non-adhesive plates, sheets, film, foil, and/or strips of various materials composed of plastics, polymers, fabrics, fibers, and other components.

One of the ways Kittrich is able to serve so many American consumers is through its low-margin mass market approach which makes our products readily available online and in stores at prices the typical American consumer can afford. If duties imposed on raw materials we import to manufacture our products increase by 25 percent, we would be forced to increase prices both at the wholesale and retail level, which could negatively impact sales.

If Kittrich sales and our margins were to be reduced, that could force a reduction in the workforce that we currently employ in multiple states and, further, many of our retailers who sell a significant volume of our products could see a reduction in sales, possibly negatively affecting them and/or their workforce.

We do not believe the intention of Section 301 is to reduce product availability and/or cause the loss of American jobs.

Kittrich's manufacturing process requires certain specifications and formulations, thickness, and quality. We have invested significant time and resources in research and development based on sourcing to ensure the highest quality product for the price. Even if alternate suppliers were available, whether in the United States or elsewhere, it would take a significant commitment of time, money, and other resources before we could resume manufacturing at the level that our distributors and customers demand.

This slowdown in our production would negatively impact the supply available to the marketplace, therefore negatively impacting distributors, retailers, and customers. Again, this could mean loss of jobs, reduction in sales revenues for many companies, and loss of availability of products that our customers utilize on a daily basis.

Again, while we agree with the overall objective of obtaining elimination of China's harmful acts, policies, and practices, we would nonetheless again question whether the intent of Section 301 is to have negative ramifications to the U.S. economy and American consumers.

Although Kittrich does own a portfolio

of intellectual property, including patents and trademarks, the products and the components that Kittrich sources from China would not be considered the type of high-tech or cutting-edge technology that the Chinese government might seek to control or monetize. Kittrich, to date, has not been subject to any efforts by the Chinese government to unfairly own, control, invest in, or otherwise pressure us to obtain any interest in any right or intellectual property owned or controlled by Kittrich.

We do not believe that the subjecting the HTSUS products referenced above to the additional duty will have any effect on protecting our interest in China or elsewhere.

Thank you again for allowing me to appear. Kittrich Corporation respectfully requests that the Section 301 Committee re-evaluate the imposition of the increased duties proposed on the Annex C products that would negatively impact our company, our employees, our customers, and our partners in commerce. Thank you.

MR. BISHOP: Thank you, Mr. Koerner. Our next witness is Slone Pearson with Fortive Corporation. Ms. Pearson, you have five minutes.

MS. PEARSON: Good afternoon. I'm Slone Pearson, global trade counsel for Fortive Corporation. I appreciate the opportunity to testify today on the impact of certain proposed tariffs affecting Fortive's operating companies, particularly the significant negative impacts such as tariffs will have on our domestic manufacturing, jobs, and exports.

Fortive Corporation is a diversified industrial conglomerate with annual revenues of approximately $6.7 billion. Fortive is comprised of 23 operating companies and is headquartered in Washington state. Fortive's operating companies design, develop, manufacture, and market professional and engineering products, software, and services for a range of end markets. We employ 13,000 Americans in the United States in 127 facilities across 27 states, half of which include manufacturing.

The majority of Fortive's research, development, engineering, and manufacturing activities take place in the United States, and our operating companies generate $660 million annually in U.S. exports. Today, I'm speaking on behalf of 19 Fortive operating companies, which are all listed in footnote one of my written testimony.

The Fortive companies support the administration's efforts to remedy the unreasonable and/or discriminatory actions of the government of China described in Section 301 determination. That said, we respectfully submit that the proposed remedy is over-broad, not consistent with the goals of the 301 investigation, and will have a number of unintended negative consequences that far outweigh the potential benefit.

As a result, we request that the USTR adopt certain categorical exemptions to ensure that the proposed remedy itself is not unreasonable or discriminatory and does not unnecessarily burden or restrict U.S. commerce. Specifically, we request that the USTR exempt from proposed additional duties products manufactured in China by wholly foreign-owned enterprises. And, second, exempt parts that are imported for the purposes of manufacturing goods in the United States.

For decades, Fortive Corporation and their operating companies have been operating in China through wholly foreign-owned entities that are fully owned and controlled by Fortive. During that time, we have neither suffered from, nor contributed to, the Chinese government acts, policies, and practices identified in Section 301 determination. Our companies have not licensed, nor been required to license, any technologies to Chinese entities, nor have they been compelled to transfer IP or technology to Chinese companies or state actors. To the contrary, we have established an impressive track record of protecting and enforcing our portfolio of hundreds of IP rights in China, including patents, trademarks, and copyrights.

The ultimate objective of the Section 301 determination, as far as manufacturing in China is concerned, is to eliminate forced technology transfers, including via compelled joint ventures or other restrictions. We submit that it would be illogical, unfair, and inappropriate to penalize companies such as Fortive, which manufacture in China under conditions consistent with the goals of Section 301 determination.

In short, our companies have already crossed the finish line that the United States has set on this issue. As a result, imposing duties on articles produced by wholly foreign-owned enterprises will not have the intended result. It will not, for example, impact companies that have contributed to the harm by transferring technology to JV partners, nor will it give the Chinese policymakers any incentive to change their policies. Instead, imposing tariffs on these articles will only hurt U.S. companies that own these facilities, as well as U.S. workers who rely on those parts from China to make best-in-class products in the United States.

Not only is it unjustifiable to impose additional duties on products manufactured by Fortive's wholly-owned subsidiaries in China, but if this remedy is imposed it will likely have negative unintended consequences. First, the company's long-term investment in its wholly-owned subsidiaries in China will compel us to continue sourcing both finished goods and assemblies from China.

The additional duties may cause our companies to lose market share to foreign competitors that do not manufacture in the United States or China and will negatively impact our customers which include the United States and government procurement sales.

Third, any financial loss we incur incident to the increased duties will accrue in the United States, impacting U.S. profitability, investments, innovation, customers, employees, and shareholders.

And, fourth, alternatively, if our

companies are ultimately forced to restructure their sourcing of covered merchandise as a result of the duties, we will lose opportunities to increase jobs in the United States.

In addition to exempting articles produced by wholly foreign-owned enterprises, we also request that the USTR exempt articles that are imported for use in U.S. manufacturing operations. Well over half of our subject merchandise imported by Fortive are parts manufactured by our goods -- imports to manufacture goods in the United States. Doing so allows us to employ Americans, create U.S. technologies, including those critical to U.S. national security, contribute to Buy America-required programs, and support U.S. exports.

These additional tariffs on U.S. manufacturing operations are contrary to the goals of the President's memorandum seeking to position the U.S. in high-technology goods, strengthen the competitiveness of the U.S. exports, and create American jobs.

The majority of our component imports subject to the 301 tariffs are electronic and mechanical products that are no longer available in the domestic market. Establishing alternative sourcing requires substantial investments, and that is impractical in the short term due to the long-term and complicated processes of qualifying new suppliers.

To the extent our companies are required to restructure their supply chain, as a result of the tariffs, we will be forced to look to other low-cost regions to remain competitive. Manufacturing these items will not return to the United States and additional jobs will not result.

We submit that companies that can establish independence from the alleged unfair acts of the government of China should not be made to pay for those unfair acts and should be able to have their products excluded on a company-specific basis. As such, we urge the USTR to implement these tariffs in a manner consistent with the 301 investigation and the President's goals by providing exemptions for articles produced by wholly foreign-owned enterprises and parts imported for U.S. manufacturing operations.

This concludes my testimony. Thank you.

MR. BISHOP: Thank you, Ms. Pearson. Our next witness is Hun Quach with the Retail Industry Leaders Association. Ms. Quach, you have five minutes.

MS. QUACH: Good afternoon. On behalf of the Retail Industry Leaders Association, thank you for the opportunity to provide the retail perspective on the administration's proposed 301 action. My name is Hun Quach. I serve as vice president for international trade at RILA. RILA represents the world's largest and most innovative retail companies accounting for $1.5 trillion in annual sales and millions of American jobs.

RILA appreciates the opportunity to comment on the proposed HTS list prior to the tariffs being imposed. We also welcome the ability to request product exemptions for the 301 retaliatory tariffs that went into effect on July 6th, 2018.

RILA agrees that China's technology practices and policies have harmed U.S. businesses. Retailers thrive in a rules-based economy where global markets are open, trade rule and obligations are met, and governance is fair and transparent. We support the administration's decision to hold China accountable for their intellectual property violations, but imposing tariffs on a broad range of products coming in from China, most of which have no connection to the identified violations, will simply mean higher prices for consumers.

The 301 retaliatory tariffs will not be effective in eliminating China's discriminatory behavior against U.S. companies. In fact, these tariffs will do greater harm to U.S. economic interests, including the American families that we serve every day. That is why RILA respectfully requests the removal of 45 tariff lines from the proposed list of products subject to a 25 percent tariff. Otherwise, hundreds of consumer products such as, I've got here, selfie sticks, plastic stickers, tape, curling ribbon, straws -- I couldn't bring with me, unfortunately, rotary tillers, dog kennels, and gazebos. All of those products would be slapped with an additional tax.

If enacted, these proposed tariffs will impact the budget of American families, especially lower and middle class American families who can ill afford to pay more for everyday consumer goods. The administration must do more to ensure that consumer products remain off the tariff list to prevent harm to American family budgets.

While there's no good time for price-increasing tariffs, it's particularly harmful to do so just as American families begin shopping for the holiday. If Americans retailers face any increase in the cost of products in the form of a tariff, it will mean higher prices at the checkout for American families this holiday season. For example, millions of American families purchase Christmas lights for home decor, increasingly so during the holiday season. Cling-wrap protects food, while meat thermometers keep food safe for consumption.

We're also concerned about the consumer products categorized under 7408.90.95, a catch-all HTS line which applies to dog kennels, gazebos, pergolas, fence panels, gates, scaffolding, guardrails, elevated hunting platforms, and shed-in-a-box. 8424.89.90 is another HTS catch-all line that includes soap dispensers, fog machines, and shower heads. We are certain that these products are not involved in any Chinese industrial policies, and, therefore, should not be included in the final 301 list.

Because these products have no link to the Made in 2025 agenda, we expect USTR to receive hundreds of product exclusions for 8424.89.90 and 7408.90.95, given the quantity and variety of consumer products that are captured under these HTS lines. And the impact of these tariffs would reverberate throughout the U.S. global value chain, targeting consumers, retailers, and our U.S.-based suppliers who design these products. For several products, there's no alternative other than China to source these products.

We cannot miss the opportunity to also express our significant concerns about the potential for an additional $200 billion of imports to be subject to a new tariff. That would be a devastating blow to American families, retailers, farmers, manufacturers, and other U.S. businesses. We strongly encourage the administration to not impose anymore tariffs while the United States and China are working on a negotiated settlement.

In conclusion, we ask that you think of the millions of American families, our customers, who effectively pay the price of any tariff. We look forward to working with you as you finalize this list, and I'm happy to answer any questions. Thank you.

MR. BURCH: Thank you, Ms. Quach. Our next panel witness is Chris Rice of Daikin Applied Americas. Mr. Rice, you have five minutes.

MR. RICE: Mr. Chairman and members of the committee, I'm Chris Rice, the supply chain director for Daikin Americas. Daikin Applied is part of Daikin Industries, Limited, DIL. I'm here to discuss the reason USTR should remove certain parts that Daikin Applied uses in production of air conditioning equipment from the proposed list of products subject to additional tariffs.

Those parts include fractional horsepower AC motors that are used to power fans on large air conditioning units, up to 30 per machine. The top of my written testimony contains the HTSUS subheadings at issue, which Daikin Applied discussed more fully in our written comments.

Daikin Applied designs, manufacturers, and sells HVAC products, systems, parts, and services for commercial applications. Daikin Applied is headquarters in Minneapolis, and, as shown at the end of the written testimony, has facilities in Faribault and Owatonna, Minnesota; Stanton, Virginia; Auburn, New York; Dayton, Ohio; and Phoenix, Arizona.

In May 2018, Daikin Applied announced

plans to open a new state-of-the-art built-to-order manufacturing facility in Faribault, Minnesota, an investment of $40 million that would require 200 additional employees. This will expand the production capabilities of its products and complement the significant investment already in place in the United States. In total, Daikin Applied manufacturing plants in the U.S. cover one million square feet and employ over 2,000 people.

For its U.S. manufacturing facilities, Daikin Applied sources parts in the U.S. and globally, including China. One of DIL's corporate policies is to manufacture components where they are sold. Imposing a 25 percent tariff will negatively impact Daikin Applied and the American consumer by significantly increasing Daikin Applied's cost of operating in the United States. It is estimated that the tariffs will cause an negative financial impact of more than $1.5 million on Daikin Applied.

To make matters even worse, many of Daikin Applied's competitors have moved a significant portion of their production of similar products out of the United States. This means that while Daikin Applied may pay the 25 percent tariff on parts that it purchases from China, its competitors that manufacture HVAC outside the United States will not incur the same 25 percent tariff.

In other words, the consequences of the tariffs will be to punish companies like Daikin Applied and other DIL affiliates that are trying to achieve the administration's goal by investing heavily in the United States, and specifically U.S. manufacturing and jobs.

The HVAC parts that Daikin Applied is importing are produced from mature technologies and are manufactured outside of the United States. These products are not considered by China to be strategic or advanced because the technology associated with the production of the motors is well-established, having been developed through the first half of the 20th century, and provides little or no competitive advantage.

In addition, the HVAC parts imported by Daikin Applied are not going to advance China up the value chain in any way. The fan motors required by Daikin are no longer produced in the United States. Alternative supplies exist outside of China. However, due to consolidation of the motor industry over the past 15 years, factories outside of China are operating near limits.

A supplier who would acquire our business would need to increase their capacity which could include expanding factories and equipment. This would be a significant investment of money and time, possibly taking up to 12 months. Additionally, extensive expense and time is required to adapt the new supply base, which includes multiple rounds of testing and analysis to qualify the parts internally and externally for U.S. regulatory agencies and third parties, such as the Department of Energy and Underwriters Laboratory.

The internal and external testing and analysis alone costs tens of thousands of dollars and requires more than 12 months to complete, which does not include the time it would take to increase the suppliers' capacity to the levels required by Daikin Applied. In time and money, Daikin Applied would be spending -- to simply identify new suppliers and re-certifying those parts is time and money that Daikin Applied will not be able to spend on developing and implementing advanced products in the United States.

In other words, this process would negatively impact U.S. research and development, which will make Daikin Applied less competitive in the global industries, harm Daikin Applied's employees, and ultimately harm U.S. customers from benefitting from U.S.-developed advanced technology.

In conclusion, Daikin Applied believes that imposing tariffs on mature parts in question that it imports from China will do nothing to influence the Chinese government's policies. Instead, it will simply harm Daikin Applied and DIL which are investing heavily in U.S.

manufacturing. Daikin Applied urges USTR not to impose tariffs on the HVAC parts at issue that is used in manufacturing units in its U.S. facilities.

I appreciate the opportunity to testify today. I would be glad to answer the questions you have.

MR. BISHOP: Thank you, Mr. Rice. Our final witness on this panel is Linda Rouse O'Neill, with the Health Industry Distributors Association. Ms. O'Neill, you have five minutes.

MS. O'NEILL: Thank you. Good afternoon. Thank you to the USTR 301 Committee members for the opportunity to testify before you today on behalf of the Health Industry Distributors Association.

HIDA members are medical surgical product wholesalers. We distribute products, supplies, manage logistics, offer customer support, to over 294,000 points of care in the U.S. We service hospitals, physician office, nursing homes, surgery centers, et cetera.

And all of our members have a wide variety of medical products, from the non-sexy gauze and gloves to table paper to x-ray machines, et cetera, the things that are very critically important to every sort of medical procedure or wellness visit that you might encounter.

On behalf of our membership, we urge the USTR to remove all products related to healthcare from the proposed tariff list, as it will increase the cost of healthcare and affect the smaller and medium-sized businesses that are some of our members.

Additionally, the products proposed for the tariff are very low-tech devices, that are not part of the original investigation, nor are they on the agenda for the Chinese 2025 strategy.

If the proposed healthcare-related products are included in the final list, it's only going to increase the cost of healthcare and potentially limit patient access to procedures.

The products, and they're listed on our written comments that were submitted on Friday, there's 19 codes specifically, if those were to be included, many of them support routine surgeries and procedures.

They are very low-tech things, such as medical equipment covers, surgery drapes, pulse oximeters, thermometers, and we even overlap straws.

You'd be amazed at how many straws are used in the healthcare field, when you think about coming out of surgery and being able to be assisted for drinking, and especially, very much in nursing homes.

So, I heard a lot about straws from medical distributors, which I have to admit, did not jump out at me the first time I was reading through the list.

The healthcare supply chain is very efficient. It often serves providers with just-in-time product. Many of our hospitals are not storing product, neither are our nursing homes. They're using those for rooms and for procedures, so that they can make money and be reimbursed from either private or public insurers.

That means that they're not sitting on a lot of product, that we're not sitting on a lot of product, and that the product that is coming from China is just-in-time and there is not a big cushion of products.

A lot of our successes in sourcing globally and from China is allowing us to actually cut the cost of some products that were being sold ten years ago, are actually half the cost that they were before, because of these global strategies that are being implemented by the healthcare supply chain.

The U.S. Department of Commerce published a study a few years ago that talks about the various trading partners and sourcing for medical products. China is one of the top three countries that is utilized for medical products that are sourced here in the United States.

While some of the products on the tariff list are also made in other countries, there is not going to be enough of it. When I talked about just-in-time, MOU-to-measure, that means there is not a lot of slack in the healthcare supply chain. There is not a lot of a cushion of product.

There's certainly not enough made in the other countries to fill in any sort of gap if all of our customers asked us tomorrow to stop giving them medical products that are sourced in China.

Forty percent of HIDA's members are actually considered small businesses by the Small Business Administration, with revenues of $7.5 million or less.

A lot of these are smaller family-owned businesses, headquartered here in the States, servicing one or two states, potentially. And a lot of them are serving rural areas, where some of the bigger national companies for distribution are not serving.

Many of them are very dependent on products sourced in China. That keeps their costs low. They have about two percent margins themselves, as a wholesale distributor, and a 25 percent tariff will have a huge negative impact on their business.

In conclusion, I thank you very much for the opportunity to appear before you today and urge you to reconsider the 19 products that are in our written comments that were submitted last week and urge you to remove them from the tariff list.

I appreciate the opportunity and, again, happy to answer any questions or provide any additional information that you would require.

MR. BISHOP: Thank you, Ms. O'Neill. Mr. Chairman, that concludes direct testimony from this panel.

MR. WINELAND: Thank you. Our first question is for Mr. Busch. You testified that vinyl product is considered old technology.

You talk a little bit in your testimony about alternative suppliers, outside of China, and that there may be excess capacity in some other countries, but nowhere close to the capacity that you need.

Could you talk about the trend line over the past several years, in terms of capacity outside of China? Are you seeing an increase in non-Chinese suppliers for your sector?

MR. BUSCH: Thank you for the question and the time. In short, as the technology and products began and production here stateside, like I said, 60 years ago, the investment in additional technology, additional expansion, additional capacity, ended 20 years ago stateside.

And so, the reality of where people are putting more money and production into additional capacity here within the States, that has ended.

And so, what began as a shift in production to Mexico, which then shifted to South Korea, which has since shifted to China. The growth of machinery, the growth of capacity, the growth of output is purely Chinese at this stage.

MR. WINELAND: A follow-up question, so, when you talk about excess capacity in some of those other countries, you're referring to countries like South Korea or Mexico, rather than newer suppliers of this product? Kind of, as you ticked off the countries, China, what's next?

MR. BUSCH: Those other countries, similar to the U.S., Mexico hasn't reinvested in capacity. Korea also now has not either. And so, the capacity that is there is limited.

The antiquated machinery that's there. The output, daily, weekly, monthly output just isn't at the speed for where the new equipment has been put in place. And so, while the technology itself is old, they have made advancements at least in speed.

But as far as the actual work that it is that's there, the worldwide manufacturers that make the machinery, they've improved the process, but again, the added machinery, added capacity really has been within the Chinese markets as a whole.

MS. PSILLOS: The second question is for Mr. Hinsch from Top Value Fabrics. And very similar, you cited an example of finding difficulty seeking increased production from a specific Korean supplier. Do you anticipate encountering similar difficulty from other Korean suppliers or other third-country suppliers?

MR. HINSCH: Yes, thank you for the question. Absolutely, I am -- I think that we would have a very, very difficult time finding any excess capacity out of any of the other countries.

What's transpired really is, as Mr. Busch mentioned, is a lot of these countries have moved their production or shut down their production lines of these commodity fabrics, in order to focus on more profitable items.

And those, in turn, have shifted to China. And what has also happened is, downstream products that are made for these vinyl products are also being made in China.

So, in order to move the chips that are being produced in China, the PVC that's being produced in China, to another country, along with the equipment that is required to do so, would be very, very challenging.

I think many of us have mentioned that

it will take us two years, approximately, to make a shift in this production. I think, as I sit here, we're being very optimistic that that's even possible to do within two years.

In my opinion, it's taken us, as Randy mentioned, 20 years to get to where we are now. There's no way that we can do this in two years. It would be next to impossible.

MS. PETTIS: This is a question for Mr. Jenkins from Impak Films. Can you provide additional evidence to support your claim that there are no other global suppliers for PET film, other than Chinese manufacturers?

MR. JENKINS: The specific product that I was referencing was a PVC-coated polyester film. The original manufacturer for that film that was supplied to the application that I cited was actually DuPont. And they began production in 1970.

They discontinued operations or production of that type of material about 18 years ago. In the void that was created, there was a search at that point in time for alternative materials and a Chinese manufacturer actually developed a material that would meet the needs of that particular application.

Subsequent to that, there have been. There was another manufacturer that has been identified, similarly, that products would meet the performance requirements for that specific application.

So, the citing wasn't for PET films as a whole, but for that one particular type of material, which is a PVC-coated polyester.

MS. PETTIS: Thank you.

MS. HOLLAND: The next question is for Mr. Koerner from Kittrich Corporation. Recognizing your comments that it would take significant time to switch suppliers, could you elaborate on what other suppliers do exist for Chinese products used by Kittrich?

MR. KOERNER: Well, being in business since 1978, our founder has developed relationships with factories and partners in China, to develop the specifications.

Our products, at least the products that are mainly affected by these subheadings are, imagine kind of layers of material where there might be a pattern, a backing, an adhesive, a protective covering over the adhesive.

So, for the -- when we get the components, to put them all together, if they're not exactly the way we've developed them, the exact thickness, and I don't know the technical term, but I guess like the brittleness or -- it's not easy to just go to another supplier.

It took years to get the formula exactly right, so when we manufacture it, you don't get separation, you don't get fading, you don't get some of the problems for quality control. So, it's just based on exact specifications that have taken years to perfect.

MS. HOLLAND: The next question is for Ms. Pearson from Fortive Corporation. You make the argument that tariffs could require relocation of production to or sourcing from countries other than China. Do you view this as a viable option to address potential sourcing problems?

MS. PEARSON: As many other people in the last panel testified, we are already facing very tight supply chain restrictions, somewhere between 12 and 24 months for electronic components, for example.

So, alternative sourcing is something we've already been looking at extensively for years now, actually. And it hasn't presented itself as a viable option for most of our products, which have very low margins right now.

CHAIR TSAO: This question is for Ms. Quach. According to your testimony, many of the consumer products, RILA, listed are not high-tech and would not advance China's economy.

If they're not high-tech products, does that mean that it would be possible to sort of seek alternative supply chains or production facilities outside of China?

MS. QUACH: Thank you for the question. As you can see from the products that I brought here today, several of these products are low manufacturing, low skilled products that are currently manufactured in China.

So, the production of -- the moving of production of something like curling ribbon is not something that other countries are interested in producing at this point. And so, really, China provides a captive market, when it comes to some of these consumer products.

The margins, similar to Pearson, as Ms. Pearson has described here, for retail, our margins are razor-thin. And so, the additional cost that would be required to not only move that production, or even investigate and analyze what those opportunities are, would be challenging.

One of the comments that I received from one of our member companies on stickers alone, it would take a year to go and source from another country.

And there are opportunities for things like stickers to be sourced from a country like Taiwan, but if every retailer were to go to Taiwan and source those stickers, I imagine that there are some capacity problems there.

So, there are some challenges that would create additional costs for consumers, but also, in particular, for those companies throughout the entire supply chain.

MS. PSILLOS: This question is for Mr. Rice. Can you elaborate on why Daikin's other global parts suppliers cannot provide the products that you currently import from China?

MR. RICE: Yes. So, the -- about 15 years ago, the electric motor business, industry, consolidated. And it was a couple of companies that bought out all of the smaller competitors.

And at the same time, they also closed a number of factories and then, moved production to low-cost countries, being either Mexico or China. And at that time, they constrained their capacity.

Now, Daikin uses a customized design motor that goes through extensive qualification testing. And so, if we were to attempt to find another manufacturer that had capacity, we would have to go through this qualification.

And when you go through all of the testing, the agency testing, the live testing, the unit testing, the requalification of the thermal properties of the chillers, and then, all the redesign work, it would take somewhere between 15 and 24 months to complete that testing.

So, it's quite an extensive amount of work. And based on our information, the suppliers just don't have excess capacity, so they'd all have to also expand their factories in order to meet our demand.

MS. ROY: This question is for Ms. Rouse O'Neill from the Health Industry Distributors Association. You have stated that China accounts for only 14 percent of the market. Given this figure, why do you view alternate supply for these healthcare products to be insufficient?

MS. O'NEILL: Thanks, that's a great question. While it's 14 percent, it's for the whole market. And when you look at products, they're more -- some products, the low-tech products, gloves, needles, and those types of things, are predominantly in China.

So, that's 14 percent of medical surgical as a whole, it is a higher percentage for certain products. It just doesn't -- the report didn't drill down, that's just information from some of our members who source there. If that makes sense.

MS. ROY: Okay, thank you.

MS. O'NEILL: Thanks.

MR. BISHOP: We release this panel with our thanks. And we invite the members of Panel 6 to please come forward and be seated. And the members of Panel 7 to please come forward and be seated in the witness holding area.

Will the room please come to order?

CHAIR BUSIS: Mr. Bishop, before we start with this panel, we have some additional or different members of the 301 Committee, so I'm going to ask the Committee to introduce themselves again. Starting here, thank you.

MS. HOLLAND: Dovie Holland from the State Department.

MS. PETTIS: Maureen Pettis, Department of Labor.

MR. BHARWANI: Ravi Bharwani, Health and Human Services, Food and Drug Administration.

MS. ROY: Tracy Roy, Department of Homeland Security.

MS. PSILLOS: Kate Psillos, Department of Commerce.

MR. WINELAND: Tim Wineland, USTR.

CHAIR BUSIS: And William Busis, USTR. And the panel can now proceed. Thank you.

MR. BISHOP: Our first witness on this panel is Mark Kinzie, with Logitech, Incorporated. Mr. Kinzie, you have five minutes.

MR. KINZIE: Good afternoon. My name is Mark Kinzie and I am Director of Worldwide Compliance at Logitech. We appreciate the opportunity to testify at this hearing today. We have filed written comments that describe our products, our manufacturing, and our business.

As identified in the Federal Register notice of June 20, 2017, the USTR has requested in these hearings that, "Commentators address specifically whether imposing increased duties on particular subheading would be practicable or effective to obtain the elimination of China's acts, policies, and practices, and whether maintaining or imposing additional duties on a particular product would cause disproportionate economic harm to U.S. interests, including small or medium size business and consumers."

Logitech is here today because the tariffs imposed on List 2 and one subheading in particular, 8543.70.99, is not practicable or effective to eliminate China's practices, namely, its forced or covert technology transfers.

Moreover, imposing these increased tariffs on Logitech does bring proportionate economic harm to it as a company and directly to U.S. consumers. But I'll get to that in a moment.

First, however, because it is most important, Logitech is here today to support the elimination of the stated China practices and to align with the objectives of the Section 301 investigation.

There is a way to do that. In its day-to-day business operations, Logitech protects its own intellectual property, shields its own proprietary technology, and insulates its own product development from technology transfers, which otherwise might bring about the loss of any one of these.

Logitech does this by wholly owning and operating its factory in Suzhou, China. The company made this investment several decades ago and, since that time, has embraced and re-embraced the factory as the best business practice to protect its intellectual property and proprietary product technology.

In this way, Logitech is not subject to foreign ownership restrictions or the administrative and licensing processes that are used in China that require or otherwise pressure the transfer of technology away from U.S.

companies. Indeed, we know of no such transfers to the contrary.

What I am here to ask from this panel and from the Office of the U.S. Trade Representative, is to recognize the economic incentive attached to tariffs when they are not imposed on U.S. business, such as Logitech.

When we design our business in such a way to avoid the very acts, policies, and practices that create the technology transfer found in your Section 301 determination, we have aligned and have already begun to accomplish the objectives of your report and have done it as a matter of best business practices. Indeed, we are ahead of you.

What I am here to ask from this panel is that you recognize and do not miss the economic incentive attached to a 301 tariff when it is not imposed on a U.S. company that organized itself to behave this way.

Indeed, Logitech does this today. There are others who do it as well. Most importantly, there may be more who align or could align in this way in the near future. And that's important.

Equally important, however, is to recognize that the tariff is too broad and, in fact, does bring about a disproportionate and direct economic harm to U.S. business and directly to U.S. consumers.

On the single subheading at issue for Logitech, 8543.70.99, this occurs in two ways. First, 8543.70.99 is a catch-all subheading that covers a range of consumer products.

Specifically, it applies to, "electrical machines and apparatus having individual functions not specified or included elsewhere in this chapter."

As you can tell from this description, this subheading does not apply to a specific type of product. Instead, it covers other products not specifically covered elsewhere in the tariff schedule.

For example, products classified in this subheading include pedals used with musical instruments, e-cigarettes, cell phone cases incorporating an image, hair removal devices, travel humidifiers, selfie sticks, and illuminated Halloween decorations. It also includes Logitech's Harmony television remote controls.

As you can see, this catch-all subheading identifies consumer goods in a way that is too broad and, as you might expect, will impact consumer prices.

Logitech, like other U.S. companies importing under this subheading, will modify its pricing strategy in a way that bears the cost of these tariffs across retailers and U.S. consumers.

Second, 8543.70.99 captures products that incorporate relatively low levels of technology sophistication. These products do not contain the types of technology that the Chinese Government has identified as critical for its industrial advancement policies.

This is evident from the list of products just mentioned. This is true also for Logitech's television remote controls. These consumer products are peripheral electronic devices used to control various devices in a residential entertainment system.

They are no more technologically complex than the devices they are intended to control, such as televisions, Blu-ray players, and audio systems.

For this reason, including 8543.70.99 is too broad, because these products are not technologically complex, are not the subject of forced technology transfer, and therefore, do nothing to bring about the elimination of China's acts, policies, and practices regarding such forced or covert technology transfer.

The Federal Register notice of June 20, 2018 requests that the public comment presented here show the nexus between increased duties placed on the specific subheading and its practicable or effective result in obtaining the elimination of the China practices.

With regard to subheading 8543.70.99, that nexus is absent. Indeed, it appears that it was without any basis altogether. But more importantly, it does not accomplish the objectives of the Section 301 investigation and report from the Office of the U.S. Trade Representative.

More importantly, Logitech, as a company, in its day-to-day operations, is protecting its technology and intellectual property, because it owns and operates its factory in China.

For these reasons, we respectfully request that subheading 8543.70.99 be excluded from List 2. We appreciate your every consideration for this specific exclusion. And I am available to answer any questions, at any time.

MR. BISHOP: Thank you, Mr. Kinzie. Our next witness is Guy Bentley, with the Reason Foundation. Mr. Bentley, you have five minutes.

MR. BENTLEY: Thank you. Good afternoon, Chairman and members of the Committee. My name is Guy Bentley. I'm a research associate at Reason Foundation.

Reason Foundation is a nonpartisan

public policy research organization that seeks to promote choice, competition, and a dynamic market economy as the foundation for human dignity and progress.

I'm urging the Committee to reject proposed tariff increases on electronic nicotine delivery systems, otherwise known as e-cigarettes, and classified in tariff numbers 8543.70.99.30 and 8543.70.99.40.

E-cigarettes are known to be 95-99 percent safer than combustible tobacco cigarettes and they're the most popular and effective tools used by Americans to quit smoking. These tariffs would raise the price of e-cigarettes and disincentivize American smokers from switching from smoking to vaping.

Tariffs of any kind are a direct tax on consumers. There must be an overwhelming social or national security case to justify such burdens on American consumers, as there is no sound economic case for doing so.

In the case of e-cigarettes, no such

case can or has been made. Since e-cigarettes entered the market in a substantial way from 2010 onwards, the adult smoking rate has declined at a substantially accelerated rate.

After decades of consistent decline, the adult smoking rate experienced a leveling off between 2006 and 2008, at 21 percent. Between 2011 and 2017, however, adult smoking rates fell from 19 percent to 13.9 percent, with many public health experts attributing this success in part to the widespread availability of e-cigarettes.

E-cigarettes allow smokers to consume the nicotine they desire, but without the lethal smoke, which kills half of lifelong cigarette users.

The National Academies of Sciences, Engineering, and Medicine, the American Cancer Society, Royal College of Physicians, and Public Health England all agree that smokers who switch exclusively to e-cigarettes dramatically reduce their risk of smoking-related disease.

Reducing the burden of this

smoking-related disease, by in part ensuring the availability of safer nicotine alternatives, such as e-cigarettes, is the official policy of the Food and Drug Administration, as outlined by Commissioner Scott Gottlieb on July 28, 2017.

In his speech, Commissioner Gottlieb recognized that nicotine, while highly addictive, is delivered through products that represent a continuum of risk and is most harmful when delivered through smoke particles in combustible cigarettes.

Switching smokers from the most lethal form of legal nicotine consumption to safer alternatives has the potential to save millions of lives.

According to modeling conducted by David Levy and colleagues at Georgetown University Medical Center, a replacement of cigarettes by e-cigarette use over a ten-year period would yield 6.6 million fewer premature deaths, with 86.7 million fewer life-years lost.

More than 480,000 Americans die each year from smoking. That's more than seven times the number who died from opioid overdoses in 2017.

Policymakers are familiar with the concept of so-called sin taxes. These taxes are imposed to cover the external costs imposed by harmful behaviors, such as smoking and excessive alcohol consumption, and to deter such behaviors in the first place.

Uniquely, tariffs and other such taxes on e-cigarettes raise the specter of virtue taxes. Tariffs on e-cigarettes would directly penalize smokers for switching to massively less harmful products in order to save their lives.

E-cigarettes present no negative externalities in terms of either health or fiscal costs.

Tariffs on e-cigarettes run directly counter to FDA's stated goal of reducing the public health burden posed by tobacco cigarettes and would only advantage cigarette manufacturers by making safer alternatives from their competitors less attractive than they otherwise would be.

The economic literature already

demonstrates just how harmful such taxes would be, with the price elasticity for rechargeable e-cigarettes being 1.9. So, for every ten percent increase in the price of e-cigarettes, sales will fall by 19 percent.

Today, almost all e-cigarette devices are made in China. This works to the benefit of American e-cigarette companies, who are largely engaged in the business of producing nicotine and nicotine-free e-liquids, while importing devices from China.

This division of labor has allowed American consumers access to a wide variety of e-cigarette products at affordable prices. Increasing import costs for American e-cigarette companies only serves to harm these businesses and does nothing to contribute to domestic e-cigarette production.

On the retail level, e-cigarette stores operate on incredibly thin profit margins. Depressing sales through higher taxes, which will inevitably be passed on to the consumer, will no doubt lead to the closure of e-cigarette stores and job losses.

Due to the FDA's 2016 Deeming Rule, which imposes enormous costs on domestic e-cigarette producers, but whose full implementation has been delayed until 2022, e-cigarette manufacturers are operating in an environment of high uncertainty, making the possibility of any major expansion of domestic production extremely unattractive in the short-term.

Higher tariffs combined with the current regulatory environment mean there is little prospect of developing a successful domestic e-cigarette manufacturing sector among all but the largest firms.

Tariffs on e-cigarettes don't just represent an unnecessary cost to consumers. They are actually an active threat to public health. The winners from these tariffs are not domestic e-cigarette producers, but manufacturers of tobacco cigarettes.

We know that cigarette taxes decrease cigarette consumption. The same is true for e-cigarettes. With that, thank you so much for taking our testimony and we urge you to reject these tariffs.

MR. BISHOP: Thank you, Mr. Bentley. Our next witness is Gregory Conley with the American Vaping Association. Mr. Conley, you have five minutes.

MR. CONLEY: Good afternoon and thank you for allowing me to testify, Chairman, members of the Committee. My name is Gregory Conley.

I run a nonprofit, 501(c)(4) organization, the American Vaping Association, which advocates for sane and sensible regulation of vapor products, with the end goal being to get the most number of smokers, adult smokers, to switch to these products and decrease dramatically their health risks associated with smoking.

I am here today, as are others, to urge you to oppose and remove the 25 percent tariff on 8543.70.99.30 and 99.40, which, again, would be a 25 percent tariff on what are called e-cigarette devices in the HTS code.

Enacting this tariff would be disastrous for public health and small businesses, and it would actually do nothing to bring manufacturing to the United States.

Now, I suspect that before today, the members of the Committee, understandably so, have not given much thought to where e-cigarettes are made, what came about, how did the market develop, and what is the relationship between these Chinese companies and Americans here?

So, to give it in a very brief context, the concept of an e-cigarette was created around the year 2007 by a pharmacist in Hong Kong by the name of Hon Lik.

And he had his father, and I believe his grandfather, who died from lung cancer due to smoking. And he himself was a smoker who struggled to quit. And so, he thought up the idea.

We know that nicotine, while it's what gets smokers addicted, what gets them dependent, it is not what kills smokers. It is the inhalation of burning smoke that kills 480,000 Americans every year.

So, he created an e-cigarette. And Americans that were purchasing those products demanded innovation. And it was the Chinese companies, in Shenzhen, that continued to innovate. And for a couple of years, the entire industry was China.

Now, the past seven years, eight years, we have a great relationship between America and China, where it is the Chinese that manufacture the devices, usually with an internal battery, and it is American companies, about a $2 billion industry, inside of the overall $5.5 billion American industry for vapor products, it's about a $2 billion industry to produce and manufacture the e-liquid that goes inside these products.

There is not a great deal or a significant amount of IP theft. It is not something that is a great concern to American businesses. We understand that it is the innovation that has happened in China that has driven this industry to become the size that it is.

But here's the problem, I don't want to downplay the concerns of other industries that are speaking out against proposed tariffs, but there's something unique about the vapor industry that separates us from every other industry being targeted with these tariffs.

Our industry currently has a countdown clock of about four years, until August 8, 2022, that is the date that right now, every single vapor product on the market will have to file what's known as a retroactive pre-market tobacco application. And that's a cost of several million dollars, just to try, try, to keep one single product on the market.

That countdown clock to extinction originally was set to go off August 8, 2018, under the rule proposed by the Obama Administration.

FDA Commissioner Scott Gottlieb wisely moved that date to 2022, to give more time. But unless the FDA enacts actual regulatory reform, not just delays, this industry will shrink dramatically four years from today.

And due to that regulatory uncertainty, even large companies that are not connected to big tobacco, large companies with multimillion dollar revenues every year, they have no hope of attracting the kind of investment that would allow an American factory to manufacture these products.

So, there is no IP theft and the chance of American manufacturing happening because of a tariff like this, even if the tariff was 100 percent, it would not spur U.S. manufacturing.

Plus, unlike other industries impacted by these tariffs, we are facing state and local taxes. Here in Washington, D.C., they recently raised their tax on e-cigarette devices, that wholesale for $30, $40, $50-plus, to 90 percent of wholesale. Ninety percent.

So, you're adding not just a tariff, but you have wholesale taxes at the state level that are already putting some small businesses under.

Others will testify about the need for clarity. My testimony goes into that extensively. And to conclude, let's be clear, we want these products manufactured in the United States, but tariffs are not the way to get that. We need regulatory certainty.

Over 90 percent of imports are coming from China, there is no alternative. And absent changes, these tariffs will do great harm to American businesses. Thank you.

MR. BISHOP: Thank you, Mr. Conley. Our next witness is Brittani Cushman with the Vapor Technology Association. Ms. Cushman, you have five minutes.

MS. CUSHMAN: Good afternoon. My name is Brittani Cushman and I am President of the Vapor Technology Association, also known as VTA. Today, my testimony is in opposition to the inclusion of proposed HTS code 8543.70.99 for other machinery.

Specifically, we are opposed to the tariff on personal electronic vaporizing devices, classified in 30 and 40 of that heading, which would adversely affect over 10,000 U.S. businesses and over 10 million U.S. consumers of vapor products by placing a 25 percent tariff on these vaping devices.

VTA is the U.S. nonprofit industry trade association, whose more than 600 members are dedicated to developing and selling high quality vapor products that provide adult consumers with a safer alternative to traditional combustible cigarettes.

As is the case with the vapor industry in general, many of the VTA's members are small businesses that have created significant employment opportunities in their local communities and contribute substantially to local and state economies.

There are four principal reasons why the proposed tariffs on vapor devices should not be imposed.

First, the tariffs would directly result in harm to the public health, as these products are helping Americans move away from deadly cigarettes.

Second, these products do not have alternate sourcing suppliers. Third, the tariff would directly hurt consumers, both economically and personally.

And finally, the tariff does not involve the types of products that implicate any concerns of Chinese technological advancement.

First and foremost, the vapor products affected by this code are uniquely situated and should not receive additional tariffs, because doing so would be detrimental to the health of U.S. citizens.

As a category, vapor products are deemed by many to be significantly safer than traditional combustible cigarettes, and thus, present a significant harm reduction opportunity to U.S. citizens.

In fact, this June, the American Cancer Society stated that vapor products are, quote, closer to nicotine replacement therapies than to combustible tobacco products and are, quote, likely to be much less harmful than combustible tobacco products.

Additionally, as mentioned earlier by Mr. Bentley, the National Academies of Science issued a report this year finding that there is, quote, conclusive evidence that completely substituting e-cigarettes for combustible cigarettes reduces users' exposure to the numerous toxicants and carcinogens in cigarettes.

Further, in January of this year, U.S. researchers at Georgetown University published a study concluding that switching from cigarettes to e-cigarettes would annually prevent somewhere between 1.6 and 6.6 million premature deaths in the United States alone.

As recently as April of this year, Commissioner Gottlieb of the U.S. Food and Drug Administration stated that the FDA, quote, sees the possibility of ENDS products to provide a potentially less harmful alternative for currently addicted individual adult smokers who still want to get access to satisfying levels of nicotine, without many of the harmful effects that come along with the combustion of tobacco.

Our friends in the United Kingdom similarly have found that the hazard of health arising from long-term use of ENDS products is less than five percent of the comparable harm of cigarettes.

Fortunately, adult smokers in the U.S. have been availing themselves of this opportunity en masse. The CDC reports that the number of smokers as a percentage of the U.S. population has dropped dramatically, from 20.6 percent in 2009, when ENDS were in their infancy, to only 15.5 percent in 2016.

Today, some 10.2 million U.S. adult smokers regularly use vapor products in the need to move away from their cigarette usage. As such, VTA requests that the administration not include this code and place e-cigarettes at a disadvantage to cigarettes on the market today.

Importantly, in addition to such a

tariff being detrimental to public health, vapor devices are manufactured almost exclusively in China. For that reason, the proposed tariff of 25 percent on these products would decimate this young and burgeoning U.S. industry.

According to the government's own numbers, in 2016, 98 percent of the devices affected by this code were manufactured in China.

No U.S. companies produce these devices and any company outside of China wishing to enter this market would be very unlikely to do so under the current FDA regulatory regime, which prohibits the entry of new products to the U.S. market absent marketing authorization.

This authorization requires a manufacturer to meet extensive pre-market application requirements that are as of yet undefined, but no doubt would take at least two years to complete.

Further, even if a company were to enter this market absent these restrictions, the lead time to implement such a manufacturing process would no doubt be at least six months, just to procure specialty equipment.

Finally, the administration has made clear that the imposition of these tariffs should not impact U.S. consumers. The imposition of this tariff would directly and radically increase the retail price of these products for consumers, placing the burden of the tariff squarely on the consumer.

A 25 percent increase on these devices would drive the average price to a U.S. citizen up to $37.50 for a simple device and $125 for a more advanced device.

This problem is complicated by the fact that many vapor consumers in the U.S. own more than one vapor device, which means that the adverse tariff impact would be double or triple the added cost to each American.

While e-cigarettes are providing to be groundbreaking technology for the purposes of smoking cessation, they do not involve the types of industrial-sensitive or artificial intelligence technologies about which our country is rightly concerned in protecting.

Instead, they represent the first opportunity that our country has to fundamentally change Americans' addiction to cigarettes.

Thank you for your time and consideration and please refer to the VTA's comments to the record.

MR. BISHOP: Thank you, Ms. Cushman. Our next witness is Arnaud Dumas de Rauly with the Blinc Group. Mr. de Rauly, you have five minutes.

MR. DE RAULY: Good afternoon, everyone. Don't worry, I won't speak with a French accent during my entire testimony. Members of the Committee, thank you very much for listening to us tonight.

On behalf of the Blinc Group, of which I am a co-CEO and cofounder, we are an incubator and accelerator and distributor of reduced-risk nicotine and cannabis vaping products, and primary employer of 12 U.S. citizens. We are also the only cannabis industry representative in the hearing.

Increasing tariff on vapor product devices, which means batteries intended for use in vaping devices, as well as the cartridges, will do great harm to American businesses, patients, as well as consumers, while doing nothing to empower American companies to manufacture these products themselves.

Tariffs will not bring back jobs to America. The University of Chicago reported that the U.S. lost about 5.5 million manufacturing jobs between 2000 and 2017.

During those same years, output from U.S. factories increased, which indicates that optimizations in productivity are a huge driver for the decline in manufacturing employment.

Today, companies rely a lot more on automation, coupled with college educated employees to run them. Thus, it becomes harder to find a qualified workforce to manufacture such low level products as e-cigarettes for vaping and for cannabis.

In addition, with the cannabis and

vaping industries, there are no manufacturers in the U.S. The majority of raw materials to produce compliant and reduced-risk products for patients and smokers simply aren't available in the U.S. and would have to be imported anyways.

The cost of material are always lower in China because of the buying power and the widespread availability.

Increasing tariffs may have worked 20 years ago, when U.S. manufacturing was at its highest, but given the current economy, it is a major mistake to believe that this will bring back jobs to American citizens.

Access to reduced-risk and therapeutic products would be limited. As my colleagues from the vaping industry have previously stated, the data exists to prove that harm reduction aspects, whether from the CDC or the National Academy of Sciences, that smokers using vapor products were actually more likely to quit versus those using methods like nicotine gums and patches.

Furthermore, cannabis vaping products

comprised an average of 25 percent of cannabis sales in medical marijuana or adult-use states. Access to these products will be made virtually impossible given the current ten percent to 15 percent margins on these products.

Dispensaries and retailers will stop carrying the products, inherently forcing patients and customers who use vaporizers to use more aggressive consumption methods, not to mention states like New York or Florida, whose medical marijuana program will be harder to access for patients as they are based solely on cannabis vaping products.

The proposed rise in tariffs assessed on these products will only result in a tax increase on American businesses and will discourage adult smokers from switching to these harm reduction products, as well as cannabis patients from gaining access to their medication.

Finally, the regulatory uncertainty that my colleagues have spoken about and the loss in tax revenue will impact American businesses and the American government.

At the moment, the American vaping and cannabis industries are surrounded by a cloud of regulatory uncertainty that makes substantial investments in American manufacturing unlikely.

The FDA rule passed by the Obama Administration will put 99 percent of current established vaping manufacturers out of business by 2022, as the previous speakers have stated.

In addition, the lack of federal guidance and the ignorance of the therapeutic benefits of cannabis, as well as the social justice opportunity of the promising cannabis industry, will significantly stifle American innovation. Regulatory certainty would result in more American manufacturing.

Finally, when we speak about the taxes, I'd like to give you an example. The State of Colorado has collected over $247 million in cannabis tax revenue in 2017.

Considering that over the same time period, cannabis vaping products comprised 25 percent of those sales volumes, and given the increase in tariffs would disappear, the loss of taxes due to non-availability of the product would represent $61.75 million for the State of Colorado, which equates to the cost of educating 10,445 students from kindergarten to 12th grade.

Yes, this revenue is used to fund education, regulation, substance abuse prevention, and treatment programs.

Therefore, on behalf of the Blinc Group, I ask you and urge you to please reconsider the 25 percent hike in tariffs. Thank you very much.

MR. BISHOP: Thank you, Mr. de Rauly. Our next witness is Tracy Musgrove with Revolutionary Vapes, LLC. Ms. Musgrove, you have five minutes.

MS. MUSGROVE: Thank you and good afternoon. My name is Tracy Musgrove and I am appearing before this Committee today as the owner of two retail vape stores located in Williamsburg, Virginia. We employ a total of six people, three at each vape store.

I'm appearing to testify regarding HTS Number 8543.70.99.30 and 8543.70.99.40 and the impact the imposition of additional taxes via these tariffs would have on the vapor industry.

First, please allow me to provide a breakdown of our typical customer base in our stores. Both stores reach a target age market of 30-plus working professionals, who are looking for an alternative to smoking combustible cigarettes.

The demographic of Williamsburg is made up a great deal of active-duty military personnel, as well as retired military. Therefore, our customer base most certainly includes numerous active-duty military and veterans.

Many other customers come in our stores looking to vape instead of smoking cigarettes because they have children and want to pursue a healthier lifestyle, because they are now parents.

We also have a significant number of senior citizens who are vaping as an alternative to smoking cigarettes, often due to health issues associated with the years of smoking, such as COPD, asthma, cancer, et cetera.

Most of our customers have been smoking for lots of years and have attempted to quit smoking numerous times, but to no avail. They have found vaping to be a successful means of tobacco harm reduction, in that they no longer smoke deadly combustible cigarettes, but now get their nicotine from a safer delivery method via vaping.

A bit about tobacco harm reduction. Harm reduction is not a new idea to the public health community. In fact, harm reduction has been regarded as effective in many aspects of public health, such as illicit drug use.

Vaping as a means of tobacco harm reduction simply utilizes vaping as a far safer alternative nicotine delivery system than smoking combustible cigarettes.

Eliminated is the combustion and all of the byproducts of combustion, such as tar and the 4000-plus toxic chemicals present in a combustible cigarette.

The user is exposed only to the vapor from the e-juice, which consists of food grade vegetable glycerin, food grade propylene glycol contained in food flavoring, and nicotine.

It should be noted that the nicotine is optional. There is always a non-nicotine alternative for those who don't want the nicotine.

As you all know, consumers are very price sensitive. As much as our customers embrace vaping instead of smoking cigarettes, if the cost of vaping far outweighs the cost of smoking, many will be forced to go back to smoking, due to financial concerns.

The imposition of additional taxes via tariffs would most certainly have the consequence of raising the cost of vaping equipment quite significantly.

The reason the cost would rise is because all of the hardware used in vaping is manufactured in China. In fact, the industry was created by a Chinese scientist, as Mr. Conley pointed out.

The e-juice utilized in the equipment is manufactured in the United States, but none of the equipment is manufactured in the United States at this time.

It would be the equipment prices that would be prohibitively driven up as a result of these tariffs. Increasing tariffs on vaping products will do harm to many small businesses in the United States that sell vape products, while doing nothing at all to move manufacturing of these products to the United States.

Specifically, in the State of Virginia, the cost of combustible cigarettes is already so low that the industry has very small margins on which to compete on a cost basis with the tobacco industry.

Just a few weeks ago, our industry trade association had our annual meeting here in Washington, D.C. Representatives from two Chinese equipment manufacturers, SMOK and VAPORESSO, were present as new members of the association.

Representatives from both companies

indicated willingness and desire to potentially open manufacturing facilities in the United States for the U.S. market, thereby eliminating the concern regarding tariffs.

However, due to the uncertainty associated with the industry in the United States, due to the FDA's Deeming Regulations, they are not able to make the business decision to do so.

If the FDA would finalize reasonable standards regarding the regulation of vaping in the United States, this barrier would be removed and manufacturing could potentially begin here in the States.

As well, restrictions on new technology would also be removed, allowing the manufacturers to address various safety concerns with vaping equipment that manufacturers already have the solution to, but are unable to implement in the U.S. market due to the Deeming Regulations.

It should be noted that these very same manufacturers are currently already selling improved products in other countries.

By having vape equipment manufacturing in the States, not only would there be jobs created for American workers, but also quality control to American standards. This will only become a reality if there is certainty within the U.S. regarding vape industry regulations.

In closing, I would ask this Committee to consider the possible consequences, perhaps unintended, these tariffs would have on the vape industry and vape consumers in the United States, as well as to consider the timely establishment of reasonable standards regarding U.S. vape industry regulations. Thank you all for your time.

MR. BISHOP: Thank you, Ms. Musgrove. Our next witness is Carrie Wade with the R Street Institute. Ms. Wade, you have five minutes.

MS. WADE: Thank you, Mr. Chairman and members of the Committee. My name is Carrie Wade and I am the Director of Harm Reduction Policy at the R Street Institute. The R Street Institute is a free-market public policy organization based here in Washington.

I'm here today in opposition to increase tariffs on products 8543.70.99.30 and 8543.70.99.40, which will increase prices on reduced-risk nicotine products.

Mr. Bentley nicely summarized the benefits of e-cigarettes and why, from a public health perspective, they should be widely available to smokers.

I would like to echo those conclusions and add that it is important to incentivize people to use less harmful products and keep the total cost of e-cigarettes lower than combustible cigarettes, that will encourage people to switch to these less harmful products.

Contrary to such aims, however, I fear the proposed tariffs will increase the cost of these products and will keep them out of the hands of people who would benefit from them.

The proposed tariffs are intended to shift manufacturing of goods to the United States. Unfortunately, with regard to e-cigarette devices and their component parts, this shift will not happen without regulatory certainty from e-cigarette manufacturers.

E-cigarette regulation faces uncertain terms with the most significant contributor being the burdensome pre-market tobacco application process that will likely put many manufacturers out of business.

In addition, the FDA rules regarding acceptable nicotine levels of combustible cigarettes and flavor restrictions of all tobacco products, including e-cigarettes, are still being debated.

These questions will remain unanswered for several years and will prevent e-cigarette device manufacturing from coming to the United States.

It is my fear that these proposed tariffs will only serve to permanently raise the prices of e-cigarettes, even in the event that the manufacturing of these products comes to the United States. It is imperative that we take steps to make sure that this doesn't happen.

E-cigarettes are much more price elastic than combustible cigarettes, which when the price is raised, demand does not decrease. In other words, combustible cigarettes are less vulnerable to price increases than their much safer counterparts, e-cigarettes.

And it is important to remember that the populations with lower income share a higher burden of tobacco-related diseases and are even more sensitive to the proposed tax increase.

We need to recognize the potential of e-cigarettes to mitigate the risks associated with combustible cigarettes. Therefore, it is imperative that the total cost of e-cigarettes and vapor products remain at a level that encourages, rather than discourages, people to choose these less harmful products.

Doing so will reduce the incidence and cost of tobacco-related disease. Thank you for your time.

MR. BISHOP: Thank you, Ms. Wade. Our final witness on this panel is Shi Chao Quan with

ZTT International. Mr. Quan, you have five minutes.

MR. QUAN: Okay, thanks. Dear Chairman and members of Committee, thanks for opportunity to testify. My name is Shi Chao Quan, the Business Development Manager of ZTT Cable.

ZTT is a power cable wire aluminum conductor manufacturer for electrical transmission and distribution applications. Currently, we have business for the products in more than 140 countries, including North America.

Aluminum conductors steel reinforced, well-known as ACSR cable, is bare aluminum stranding wires with steel stranding as stress core. All aluminum conductor are only stranded by aluminum wires. They are designated as HTS Code 7614.10 and 7614.90.

ACSR and AAC conductors are used between power generation station to transfer electricity. ACSR is produced as per certain standards, like IEC, BS EN, or ESTM, which specifies sizes, mechanical, electrical properties for this cables.

Different from fiber optic cable, ACSR is considered as a commodity product by power utilities. We noted that Southwire has stated that these products imported from China are critical to the security of electrical grid in U.S.A.

This is not reasonable, I just list a few reasons below. First, the imported data of ACSR and AAC conductors that U.S.A. imported in the last five years indicate that China is only the fourth trade partner for these products, with very small quantities supplied to the States so far. I have attached this data below.

Second, these products are standard commodity products specified by related international standards. All the products from all the suppliers needs to be tested for these standards for quality purpose before installation.

So, we don't think only ZTT's products could be critical to the U.S. electrical grid security.

Meanwhile, we have a lot of custom data

showing that Southwire, as well as ZTT Global, have exported these products or similar to the markets such as Canada, Central America, South America, North Europe, China as well.

Besides cable itself, Southwire also exports casting and rolling machines to other countries, including China.

With that said, as per Southwire's idea, Southwire is being critical to the security of electrical grids of both countries. In fact, Southwire still dominates this market in North America and makes up the biggest market share for now.

ZTT is here to offer you an alternative to the local clients, which shall create a competitive market and benefit the consumers.

Finally, manufacturers who supplied these materials to U.S.A. was to provide products only. No installation or maintain work was involved.

Also, there is no monitoring equipment involved or supplied by cable manufacturer. All installation work will be done by utilities or their line contractors.

Based on this above, we request USTR to remove such HTS Code 7614 from imposed tariff list. Thanks for time.

MR. BISHOP: Thank you, Mr. Quan. Mr. Chairman, that concludes direct testimony from this panel.

CHAIR BUSIS: Okay, thank you. We are going to first have questions for our remote control and aluminum wire producer before we turn to the vaping e-cigarette witnesses.

MS. PETTIS: I have a question for Mr. Kinzie from Logitech. Does Logitech have production facilities outside of China and do these, if you do, do those facilities have the capability to produce TV remote controls?

MR. KINZIE: Thank you for your question. I appreciate the opportunity to shed some light on the manufacturing strategy. We frequently review and evaluate the manufacturing strategy that we embrace and it does include factories other than the wholly-owned foreign entity that Logitech has in Suzhou.

The remotes that you mentioned could be manufactured at a facility outside of China. It also could be manufactured at our wholly-owned facility in China as I mentioned in the testimony.

By doing that, we're able to see and control the sensitive technology if any in that product. We would not have that ability if we send it outside to a manufacturing facility that's owned by someone else even if it's outside China.

MS. PETTIS: Okay, thank you.

CHAIR BUSIS: Mr. Chao, you testified that China is only the fourth largest exporter of aluminum wire to the United States. Would that indicate that imposing duties on China's aluminum wire would not have a significant impact on the United States economy?

MR. QUAN: Sorry, I did not follow your question.

CHAIR BUSIS: You testified that China

is only the fourth largest exporter of wire to the United States, so wouldn't that indicate that a tariff on Chinese wire would not have a major effect on the U.S. economy?

MR. QUAN: No, I'm just saying that actually that would increase the effect for the American clients because we are the number four trade partner for these products, but we still supply significant products here, I mean, of benefit to the local customer. If we were being paid for that high tax, 25 percent, that would influence the local customers.

CHAIR BUSIS: Thank you. I will now turn to the vaping e-cigarette witnesses. I'm going to turn it over to my HHS colleague. This is your first question, so if you could introduce yourself for the court reporter? Thank you.

MR. BHARWANI: My name is Ravi Bharwani from the Food and Drug Administration and my question for the vaping folks is are there any growing markets for e-cigarettes where manufacturing could move to besides China?

MR. CONLEY: No, there aren't any alternative markets. There are two issues. One, China has expertise in this area. The only other country that I'm aware of where there is any device manufacturing happening is the Philippines.

In the Phillippines, the Filipinos, they use products called, and manufacture products called mechanical mods. These are devices that have no internal safety features, no internal circuitry. It's literally a battery, and you press and the battery then delivers some heat.

Those products are not safe. If you ever hear stories in the news media of someone using a device and the device exploding, that is a product with no internal safety features. The Phillippines do not have the specialty and the expertise that the Chinese markets do.

And then the second issue with that is that if we believe in IP ownership, then the Chinese companies that are manufacturing these products, they own the IP because they are the innovators and the creators of these products, so unless we rip off the Chinese manufacturers. It's usually the other way around.

Due to the FDA regulatory situation, it is 100 percent illegal for any new product made or produced after August 8, 2016 to come to the U.S. market. So you not only have the lack of expertise in other markets, but you also have the problem of the FDA regulation. Thank you.

MR. BHARWANI: What do you expect the public health impact of the tariffs would be?

MS. CUSHMAN: Thank you for the question. The impact I think is outlined by several on the committee. It has to do with the elasticity of e-cigarettes versus combustible cigarettes.

In the market today, if these tariffs were implemented, this places cigarettes at an even greater advantage relative to e-products. We've heard today that an increase in price on e-products, it's much more sensitive for consumer purchasing habits than if such a tariff were implemented on cigarettes.

Therefore, it just more drastically puts e-cigarettes off the plane of cigarettes in terms of moving consumers toward those lower risk products.

MR. BHARWANI: And just to add, the actual study where that figure comes from, where every 10 percent price hike in rechargeable e-cigarettes results in a 19 percent decrease in the intention to use the products, that is cited in my testimony and I believe Ms. Cushman's as well.

MR. DUMAS DE RAULY: Can I just add one thing with regards to vaping and the cannabis industry? There are states like Washington state where it would wipe out all of the products because of the margins that are so small and the increased taxes.

Washington state has 30 percent, 37 percent sin tax on a battery that is sold in a dispensary when it can be sold across the street without that 37 percent sin tax.

In addition, there's a 10 percent sales tax. If you add on top of that 25 percent tariffs, out of a total of 10 to 15 percent margin, you can easily understand that the entire category of vaping products for cannabis would be wiped out.

MR. WINELAND: Mr. Dumas, I was just going to ask you to elaborate a little bit. In your testimony, you describe state level requirements, for example, New York and Florida, that will be harder to access for patients. Could you just describe those state level requirements with regard to vaping products?

MR. DUMAS DE RAULY: The entire medical marijuana programs of the states of New York and Florida for instance, are based on the fact of only vaping, not smoking the flower itself.

So if there is any hike in the tariffs in addition to all of the taxes that the cannabis industry has at the moment in both of these states, the products would essentially disappear from off the shelves because of the low margins, and the products would become more expensive to sell than currently.

CHAIR BUSIS: The question is to the

vaping witnesses. I want to make sure that none of the witnesses have nothing else to add before we go onto the next panel. Okay, we can call the next panel. Thank you.

MR. BISHOP: We release this panel with our thanks and invite the members of panel seven to come forward and be seated. We also invite the members of panel eight to come forward and be seated in our waiting area.

Will the room please come to order? Our first witness on this panel is Phillip Bell with the Steel Manufacturers Association. Mr. Bell, you have five minutes.

MR. BELL: Good afternoon, Mr. Chairman and members of the Section 301 Committee. Thank you for the opportunity to appear before you today. My name is Phillip Bell and I'm president of the Steel Manufacturers Association.

The SMA is the primary steel trade association for electric arc furnace steel producers in the United States. EAF steel producers account for over two-thirds of domestic steel production.

As 21st century steel makers, our members utilize post-consumer fair scrap as a principal feed stock, turning this recycled material into world class steel.

I am here to support the inclusion of fabricated structural steel products on the list of products to which an additional 25 percent ad valorem duty will be applied on imports from China.

Fabricated structural steel is used to construct buildings, bridges, and industrial facilities. Steel beams, plates, rebar, and tubes are fabricated into components of buildings and critical infrastructure projects.

Steel is vital to these important projects and fabricating structural steel is a critical manufacturing step to incorporate steel into infrastructure projects.

The American Institute of Steel Construction estimates that approximately 6.7 million tons of domestically produced structural steel were used in domestic fabrication projects in 2017. Several SMA steel companies fabricate their own structural steel products in addition to making steel inputs for fabricated steel.

China's state-sponsored growth in the steel sector has been detrimental not only to the U.S. steel industry, but to the global industry, and is now affecting downstream industries like fabricated structural steel.

I want to emphasize a few relevant points about China's steel policies for the record. China's industrial policies include subsidies, investment restrictions, forced technology transfer, theft of intellectual property, export restraints on raw materials, and other distortive practices that have contributed to the unprecedented growth of the Chinese steel industry.

In the early 2000s, China's steel capacity grew quickly to satisfy internal economic growth, but in 2006, China became a net exporter, continuing to grow capacity even as their steel demand peaked. Between 2009 and 2015, China's capacity to make steel expanded a further 350 million metric tons.

China's steel production began to vastly outstrip domestic demand and a flood of exports has saturated global markets since 2014.

China makes a lot of noise about its efforts to rein in excess capacity since 2014, but their actions have had very little practical effect.

China's steel production in year-to-date 2018 is up 5.4 percent over last year's record levels, and China currently accounts for 52 percent of global production, up from 50 percent last year.

U.S. steel producers have responded to China's overcapacity and surges in exports in the last decade in a variety of ways, including efficiency gains, cost cutting, and by bringing a series of successful antidumping and countervailing duty cases against unfairly traded steel imports from China and other countries, most recently in 2015 and 2016.

Yet still, U.S. imports of steel

increased 15 percent in 2017 over 2016 levels due largely to country and product shifting. Now it appears that China is shifting to exports of value-added products such as fabricated structural steel. U.S. imports of fabricated steel products from China increased 14 percent between 2015 and 2017.

As a result of China's increased exports of fabricated structural steel to our market, U.S. producers of fabricated structural steel are being harmed.

Moreover, this harm is being experienced throughout the steel supply chain, including by SMA steel producers who rely on the domestic fabricated structural steel industry for a significant portion of their sales.

China is seeking to expand its global share of infrastructure and construction projects, and with regards to China, the government of China restricts foreign investment in infrastructure projects.

The government of China has pledged

over $1 trillion in support of its One Belt, One Road initiative to fund large ports, roads, bridges, and other steel intensive projects in the countries between China and Europe.

However, the initiative might absorb only about 30 million tons of steel a year according to a recent study by the European Union Chamber of Commerce. This is a fraction of China's annual steel overcapacity estimated to be over 300 million tons a year.

Because demand in its domestic market for construction and infrastructure is fading, China is not only seeking new markets in developing countries through One Belt, One Road, but it has also stated that it is seeking to actively tap into markets of advanced countries such as the United States.

Indeed, when President Trump announced his $1 trillion infrastructure initiative earlier this year, which we strongly support, China's Development Bank and other officials urged the United States to work with Chinese companies to increase their participation in U.S. infrastructure projects.

In conclusion, and that being said, since China is very interested in expanding into the U.S. infrastructure market, increasing tariffs on Chinese fabricated structural steel through Section 301 action may make China more responsive to eliminating its unfair practices.

If USTR and the 301 Committee decide to include fabricated structural steel products among those receiving additional tariffs, we also urge USTR and the 301 Committee to work with Customs and Border Protection to ensure that effective measures to prevent circumvention and evasion of the 301 tariffs once they are in place.

Thank you, and I look forward to addressing any questions you may have.

MR. BISHOP: Thank you, Mr. Bell. Our next witness is Daniel Duncan with Peerless Manufacturing. Mr. Duncan, you have five minutes.

MR. DUNCAN: Thank you. Mr. Chairman and members of the panel, thank you for the opportunity to appear today on behalf of Peerless Manufacturing Company regarding one tariff item that appears on the list of possible additional tariffs.

My name is Daniel Duncan and I'm the president of energy solutions business at CECO Environmental which is the parent company of Peerless. Peerless has been located in Dallas, Texas now for 85 years.

The item we are concerned about is a fabricated steel wall used for the assembly of air and sound pollution equipment which will be installed behind the gas turbine in a power plant.

The product is critical to an ongoing project that we're executing and we've entered into contract for, and our concern is the tariffs would result in the non-availability of the steel walls that we were contracted for at the contracted price, which will in turn disrupt the power project being worked on in North Carolina.

CECO Environmental is an energy technology company. We're listed on the NASDAQ exchange under CECE. We provide cutting-edge solutions to engineering issues in environmental pollution control, energy, fluid handling, and filtration areas.

The project at issue is for a Duke Energy plant in Stanley, North Carolina. The addition to the plant will increase rated capacity of the plant by about 400 megawatts of power.

Peerless entered into the contract on October 30, 2017 with Siemens Energy, Inc. in Orlando, Florida for the supply of equipment required to take exhaust from the Siemens' turbine and reduce air and sound pollution before emitting emissions to the open environment. The equipment is required by the EPA regulations.

Peerless has contracted in the United States for an overwhelming amount of the materials needed for this U.S. project, including all of the higher technology materials, but for the low tech, nonproprietary goods, which account for about 10 percent of the project, Peerless contracted outside the U.S.

As noted, this was all done well before any tariffs were proposed on these items. However, now HTSUS 7308.90.60 has been included in the list of proposed tariffs. As I sit here today, raw materials already have been procured in China, associated payments made to China, and manufacturing has already started.

As a consequence, reversal of this outsourcing decision, i.e., cancellation of our contract with the China fabricator, will impose on Peerless increased costs well above 30 percent in addition to the liquidated damages and breach of contract with Siemens due to delays of finding an alternative source of supply.

There is no alternative for Peerless CECO to avoid the consequences of this tariff or to pass the tariff along to our customer, Siemens. Thus, the results of this tariff will only hurt Peerless and have absolutely no effect on the Chinese supplier company.

We expect all of the contracted for product to arrive here in the United States from

China by the end of January 2019. Thus, we ask USTR to delay implementation of the tariffs for this HTSUS item until February 1, 2019.

This requested delay will avoid the inevitable harm to the American companies, such as ourselves, while not giving any benefit to Chinese suppliers, and will allow us to plan for future projects by developing new sources of supply within the U.S. or include the new tariffs into the cost of our projects.

Thank you for your time and consideration.

MR. BISHOP: Thank you, Mr. Duncan. Our next witness is Aaron Schapper with Valmont Industries, Incorporated. Mr. Schapper, you have five minutes.

MR. SCHAPPER: Hello, Mr. Chairman and members of the committee. I appreciate your time today. I am Aaron Schapper, group president of Valmont Industries located in Omaha, Nebraska. My remarks today are on behalf of two Valmont business segments, utility and telecommunications.

Valmont is requesting that USTR remove structural steel components classified in HTSUS subheading 7308.90.9590 from the list of products subject to Section 301 duties.

Valmont is a leading manufacturer of products for infrastructure and agriculture markets with over 5,500 U.S. employees in 38 manufacturing facilities in 21 different states. Valmont often plays a critical role in the important infrastructure and development projects.

There are no better examples of this than Valmont Utility's role in the rebuilding efforts following Hurricane Maria last year in Puerto Rico or Valmont Telecommunications providing critical support to FirstNet, an independent authority established to develop, build, and operate a nationwide broadband network for police, fire, and other first responders.

Valmont's wholly-owned subsidiary in China, Valmont Industries China, plays an important role in supporting production capacity.

Following Hurricane Maria, Valmont responded to the U.S. government issuance of rated orders for power poles which required Valmont to bump orders from other customers to help resolve the extreme power issues in Puerto Rico caused by the hurricane.

While Valmont provided the government with structures that were compliant with all government procurement requirements, Valmont utilized its production capacity in China to backfill pending orders of similar products to utilities.

With respect to the FirstNet project, Valmont Telecommunications provided antenna support structures and other telecommunication structures that allowed the placement, positioning, and access to telecommunications equipment.

A significant majority of the steel structure needed to support these projects are currently not produced in the United States, but are otherwise available from competitors who produce these products in other offshore locations.

The proposed 25 percent tariff will limit Valmont's ability to continue to provide these critical infrastructure components and will open the way for other competitors that use foreign-made components.

Valmont recognizes and shares the concerns of the Section 301 proceedings. From the beginning, Valmont established a wholly-owned subsidiary in China to have complete control over its Chinese investments while preventing any transfer of technology to other private or public entities.

Within the area of electrical power equipment, the primary focus of the Made in China 2025 initiative is the development of technology to support high-capacity hydropower generation facilities, nuclear power generation facilities, and high-powered electrical components. To be clear, Valmont does not produce any type of this equipment.

While the company serves the utility

and telecommunications industries, Valmont manufactures structural steel poles and components that do not include any of the technological advancements contemplated by the Made in China 2025.

Their manufacture in China will not threaten the U.S. competitiveness in utility and communication industries, nor will it provide the Chinese government any access to cutting-edge technology.

The Section 301 tariffs will cause economic harm to Valmont. Valmont's telecommunications business will incur forced losses based on established long-term contracts with major telecommunications carriers that do not allow flexibility in sourcing or pricing.

This economic hardship may be tolerable if other competitors were facing similar prospects, but as stated earlier, competitors are manufacturing products in other foreign locations other than China which protects them from suffering the negative economic impacts of the tariffs.

Further, to shift production to a foreign facility in another country, significant financial investments would have to be made and it would take at least 18 to 24 months to make those shifts.

In summation, imposing tariffs on structural steel components that Valmont imports from China would not in any way influence the Chinese government to alter or change the policies and practices identified by USTR. Moreover, the additional tariffs would have a detrimental impact on Valmont, its U.S. customers, and the general public.

For Valmont Telecommunications, the only benefits of tariffs would be Valmont's competitors that manufacture these components in other foreign locations. For Valmont Utility, it will limit Valmont's ability to respond in moments of natural disaster and crisis.

Thank you for the opportunity to testify today. I would be glad to answer any questions.

MR. BISHOP: Thank you, Mr. Schapper. Our next witness is Bill New with the Coalition of Energy Equipment Manufacturers. Mr. New, you have five minutes.

MR. NEW: Thank you. Committee members, thank you for holding this hearing today and for allowing me to testify on behalf of the Coalition of Energy Equipment Manufacturers or CEEM.

My name is Bill New. I'm the founder and president of New Industries in Morgan City, Louisiana. We are a speciality steel fabricator and manufacturer of large diameter pressure vessels and process equipment as well as a subsidy of oil and gas production equipment.

CEEM is a coalition of U.S. fabricators that manufacture highly specialized processed industry equipment that are used in refineries, petrochemical plants, and the production of oil and gas. These are critical applications for our energy industry.

Specifically, today we are asking that you include two tariffs in the Annex C of the 301 tariff list, 7809.90.7 and 8419.89.95. This covers modules and also large diameter pressure vessels.

For a number of years, the fabrication industry has been impacted by dumped products subsidized in China and other countries around the world. We already a suffer a labor cost differential.

However, we have made, all of our members have made substantial investment in automation and production equipment. My company, which is pretty small, we have about 90 employees, I've invested over $20 million in the last 10 years to make us more productive and competitive.

And now that the tariffs have been placed on steel, my raw material costs have increased by 25 percent, and yet my Chinese and other competitors around the world are not facing that increased material cost.

They're able to import their products into the United States where they were already at a labor cost advantage. Now they have a 25 percent cost advantage on the raw steel. These products are coming in currently.

If I buy a plate, then I have to pay the higher price for material, but if a foreign competitor builds that pressure vessel and imports it to the United States, there are no duties, and we're asking just that those duties are extended as they are included in this annex to give us a more level playing field.

You know, we have about 6,000, there's currently about 6,000 fabricators in the United States that are certified to manufacture pressure vessels. That's down over the last 10 years probably by almost half.

And if this kind of thing continues, that number of fabricators, which, you know, we're talking welders, fitters, you know, jobs that pay $50,000 to $75,000 a year, good, hardworking, blue collar Americans, that their jobs are going to go away.

And so I appreciate your consideration and I'd be happy to answer any questions.

MR. BISHOP: Thank you, Mr. New. Our next witness is Ken Strait with Tractor Supply Company. Mr. Strait, you have five minutes.

MR. STRAIT: 301 Committee and Chairman, thank you very much for allowing us to talk today. Just to qualify first, Tractor Supply Company doesn't make any tractors.

We're the largest operator of rural lifestyle retail stores in the U.S., employing 27,000 people, 1,700 stores, 49 states, and a rapidly growing e-commerce business. Our customers are farmers and ranchers primarily. They own animals and pets, and they have - some of them are rural home owners.

Many of the products we sell are sourced directly from China manufacturers, though we do sell a lot of products that are made in the USA, and that's always our first choice. Much of it is from China, and many of these 301 tariff codes in list two will affect us if implemented. These tariffs will result in higher cost spaces for many of our products.

We appreciate the administration's focus though on balanced trade, intellectual property protection, and ensuring high tech manufacturing remains in the U.S.

Tractor Supply believes that some of the HTS codes selected either don't match the intended objective of the initiative or do not accommodate a reasonable differentiation between those intended for use in industrial applications versus the use by our customers on their farms and homes.

It's also clear to us that some of the codes selected disproportionately impact the farm and ranch customer. I'll address those in a more comprehensive submission, but today I'd like to address two product categories specifically.

One is 8465.96.00 which is log splitters and another which has dog kennels and small, other small, portable, metal framed tents in it, which is 7308.90.9590.

First, if you want to see what they look like from our store, the very last page in your handout, front and back, have pictures, and there's plenty more on our website, tractorsupply.com. While you're there, you can join the neighbor's club if you like.

First, the log splitters, while we don't directly import these, we worked in developing the supply of these from a Chinese factory in partnership with its U.S. distribution division.

2017 imports of exclusive brand log splitters, in our case, County Line is the brand, that flow through the farm and ranch channel of the business represent over half of the total U.S. imports in this HTS code from China.

The technology behind the log splitter dates back to 1938 with much of the technical development occurring in the 1950s. This is clearly no technology transfer, nor is there anything about this product that relates to China 2025.

Rather, this product and numerous others like it are sourced in China due to their manufacturing and logistics efficiencies. Today we have no alternative source and there is no U.S. supply.

Products like this typically take as many as two years to develop. The bulk of that time is spent creating, testing, and refining the products and product lines in order to provide the quality, and value, and safety, and balance for our farm and ranch customers.

This is a very important product category for the rural farmers as these products are essential to the clearing and maintenance of their land. Log splitters provide the only efficient and sustainable way to turn wood from their land into economical heating fuel for their homes and barns. This is their version of sustainability.

In total, 75 percent of the product in this category is from China with 18 percent produced in Canada. While we'd love to develop domestic or Canadian supply, current products from Canada do not meet our quality standard, nor do the companies have the ability to ramp up to the production levels necessary to meet our customers' needs.

Most of the subcomponents of log splitters are also subject to a 301 tariff on their own making U.S. assembly unaffordable and impractical. Simply put, we are years away from being able to make our product from another country, and even then we would expect to be significantly higher priced.

There is a solution - that code is all log splitters, and as far as I know, none of those are used in the industry. They're farm and ranch customers.

The second one I'd like to talk about is 7308.90.9590. The Chapter 7308 addresses steel structures including bridges, towers - I saw some great pictures of bridges and towers earlier - and structural steel components for architectural building purposes.

Our dog kennels and temporary outdoor covers fall into the 10-digit catch-all category for steel structures other, other, other. Our kennels are simple wire enclosures.

These kennels and our smaller canvas-covered structures for tractors or utility vehicles used on the farm clearly fall outside, excuse me, outside of the focus of the 301 tariffs.

Neither of these products are subject to high technology transfer, nor do they relate to China 2025. In fact, our primary vendor for the outdoor structures is a U.S. company that wholly owns the manufacturing operation in China. Neither of these -

MR. BISHOP: Mr. Strait, if you could please finish up? Thank you.

MR. STRAIT: Yeah, I didn't realize I was running late. In closing, I would like to Tractor Supply knows the rural farm and ranch customer well. They are the backbone of America and work hard every day to live their lifestyle. These would impose a high burden on these specific customers that we all know are suffering right now.

Thank you.

MR. BISHOP: Thank you, Mr. Strait. Our next witness is Larry Williams with the Steel Framing Industry Association. Mr. Williams, you have five minutes.

MR. WILLIAMS: All right, thank you very much. I'd like to express my appreciation to the Chairman and the panel for giving me the opportunity to speak to you today, and I also commend your stamina after a long day of very sober testimony and your ability to pay such close attention.

My name is Larry Williams. I'm the executive director of the Steel Framing Industry Association.

The Steel Framing Industry Association represents companies in the United States that produce the steel and then manufacture, distribute, design, and install 80 percent of cold-formed steel framing products in the United States or it's also called light gauge stud and track.

Cold-formed steel framing is integral

to the construction of more than 30 percent of the nation's nonresidential buildings. There are nearly 50,000 employees of the Steel Framing Industry Association member companies and a like number whose businesses are built around these companies and the use of cold-formed steel framing.

The market for cold-formed, for construction products overall is extremely competitive and frequently the purchase decision is made according to the lowest cost producer.

Cold-formed steel framing is fabricated from hot dipped galvanized sheet steel, and since the announcement of the Section 232 tariffs, SFIA manufacturing members have seen the cost of domestically produced steel increase by 40 percent.

This has had an unintended consequence by creating an incentive for products being made with steel outside of the U.S., being fabricated into finished products, cold-formed steel products, and then shipped to the United States duty free.

We have evidence that cold-formed steel products are already being fabricated in China and shipped into California and Nevada for sale below current market prices.

Recent inquiries by my office here in Washington, D.C. indicate that this could be the front end of a trend and that creates a concern that circumvention of the Section 232 tariffs may become widespread unless something is done.

What should be further troubling is the knowledge that independent third-party tests of this foreign stud and track find not all of it meets the minimum industry standards or building code requirements that ensure that buildings are safe for all occupants.

Cold-formed steel is used as a structural element in buildings up to 12 stories tall, so consequently, meeting those minimum standards for the industry and for the building codes is exceptionally important.

Chinese steel entering the United States as cold-formed steel framing is still

Chinese steel. My manufacturing members report that they have significant manufacturing capacity available to serve current market needs, and in some cases are operating well below healthy production rates.

The prospect of having to unfairly compete with foreign manufacturers who are doing an end run around this country's trade restrictions represents a real and significant threat to SFIA member companies and their employees.

According to the guidance provided under the provisions of Part 177 of the U.S. customs regulation, the current rate of cold-formed steel products specifically from India and China is duty free.

And because of the potential impact to the domestic cold-formed steel framing industry, we are requesting that commensurate duties also be applied to - duties commensurate with the tariffs being applied to cold-formed steel sheet also be applied to imports under item 7216.61.000 and 7216.91.0010 of the HTSUS. Thank you for your consideration.

MR. BISHOP: Thank you, Mr. Williams. Our final witness on this panel is David Zalesne with the American Institute of Steel Construction. Mr. Zalesne, you have five minutes.

MR. ZALESNE: Thank you. Good afternoon, Mr. Chair and members of the panel, David Zalesne. I'm the chair of the American Institute of Steel Construction based in Chicago, Illinois, and in my spare time, president of Owen Steel Company, a structural steel fabricator based in Columbia, South Carolina with some signature projects at the World Trade Center site, including the 9/11 memorial, and here in Washington, the U.S. Capitol visitor's center.

The American Institute of Steel Construction and the American structural steel fabricators who build our great infrastructure, industrial, commercial, and other major steel products, on behalf of that group, I appreciate the opportunity to speak in support of maintaining the six HTS codes that have been proposed for inclusion on the tariff schedule under Section 301.

In the package that we prepared for the handout, we have some pictures if you'll - the six specific codes are identified on the second page of the, are listed on the second page. These codes cover structural, basic structural steel, columns, beams, girders, structural units, structures and parts of structures.

These are fabricated structural steel components that use steel mill products, but are converted through fabrication processes such as cutting, drilling, and welding into project specific components.

While many steel mill products from China are subject to duties under several antidumping and countervailing duty orders and the Section 232 action, fabricated steel products are not subject to any of those duties.

Consequently, Chinese steel mill products that are converted into fabricated steel products enter the U.S. market essentially duty free, circumventing the duties that are specifically imposed on mill products.

If you turn to the third page of the package that we've submitted, you'll see a pretty graphic picture of what we're calling the modern day expression of gunboat diplomacy by China.

It's a ship arriving in the Port of Houston loaded with thousands of tons of fabricated structural steel products. This is not a secret. This is taken from the SinoStruct.com website describing exactly what project this is for and exactly how much tonnage is coming in.

On page four, you can see the steel rolling through the port, not in the dark of night, but with banners and photo ops that you can pull from the website.

And the steel in this project will not show up in import data for mill steel because it's coming into the U.S. as a fully fabricated product. This is the fabricated steel loophole.

On page five, you'll see the data. The import data on fabricated steel from China is staggering. Since 2010, imports of fabricated steel from China have increased by 290 percent. In 2017, imports under HTS code 7308.90 were nearly 500,000 tons, approximately $831 million.

Shown on page six, China now accounts for 40 percent of the world's share of imported structural fabricated steel even as direct mill steel imports are decreasing.

As for the specific questions raised for this hearing today with respect to the objectives of the proposed 301 action, tariffs are likely to be effective in changing the policies and practices of the Chinese steel industry.

We have seen that tariffs on steel mill products have affected China's behavior, except not in the direction it was intended. They have simply shifted resources into downstream production, applying more labor intensive fabrication to mill steel products.

Moreover, as more fabricated components for large U.S. infrastructure projects and industrial projects, we are creating financial incentives to give Chinese contractors access to sensitive technical design information about American infrastructure and industry projects. That needs to stop.

The second aspect is the duties on these products would not cause disproportionate economic harm to U.S. interests. To the contrary, they would protect the interests of both downstream fabricators and mill level producers who are otherwise losing entire infrastructure projects to foreign fabricated steel.

The capital investment costs of these major industrial infrastructure projects are recovered over long periods of project usage from broad customer bases and have virtually no impact on consumer pricing.

While China - as Mr. Bell mentioned a few minutes ago, it's important to note that while China is expanding its global share of infrastructure and construction projects, it restricts foreign investment in its own infrastructure.

In our view, U.S. producers and

fabricators should supply the steel mill products and fabricated structural steel for American infrastructure projects consistent with the key findings of the Commerce Department Section 232 report with respect to critical infrastructure.

As a final note, one of the questions we've been asked in other tariff related hearings is about the capacity of the domestic steel industry to replace the supply from China. AISC estimates that the U.S. structural steel industry fabricated about 7.2 million tons of structural steel in 2015 and 2016.

However, in 2017, the same year that China shipped 500,000 tons in, the domestic industry fabricated about 6.3 million tons. Clearly there is ample domestic capacity to replace the tonnage that has been impacted by Chinese imported fabricated steel.

Structural steel is the backbone of our infrastructure system and the current tariff environment has created a huge incentive and opportunity for foreign fabricators to circumvent tariffs by fabricating steel products in their countries and importing them to the U.S. around the tariffs. No country has taken greater advantage of that opportunity than China.

From industrial plants in the Gulf states, to bridge components in the northeast, stadium projects in the west, the impacts of Chinese fabricated steel are being felt nationwide. It's time to close the loophole with China. Thank you.

MR. BISHOP: Thank you, Mr. Zalesne. Mr. Chairman, that concludes direct testimony from this panel.

MS. PSILLOS: The first question is for Mr. Bell, and the last panelist briefly touched on the capacity issue. If the United States does impose tariffs on Chinese fabricated structural steel, would the domestic industry need time to ramp up capacity to meet the domestic demand?

MR. BELL: Currently, capacity utilization across all product lines in all segments of our market is in the mid-70 percent range. There is enough unused and underutilized domestic steel making capacity to meet domestic demand, and we have members at the SMA that are ready, willing, and able to do that.

MS. HOLLAND: This question is for Mr. Duncan from Peerless Manufacturing. In your statement, you asked that USTR delay implementation of tariffs on one harmonized tariff item until February 2019 as your company has already contracted with a Chinese company to deliver materials under this line item. Could you clarify?

You also mentioned that you had already begun payments for that contract. Could you clarify, have you already made full payment under the contract or if you've investigated your legal options for voiding the contract based on a change of circumstances?

MR. DUNCAN: It's a $2 million contract. $500,000 of that has been paid to our Chinese fabricator. To cancel the contract at this point would cost $750,000, and then the delay impacts that we would have on the project are estimated at about 60 days. It's $8,000 a day, so it would be about another half a million dollars to go find somebody new to provide this piece of equipment.

CHAIR BUSIS: This question is for Mr. Schapper of Valmont Industries. You testified that you have difficulty manufacturing or finding, either manufacturing yourself or finding manufacturers for these infrastructure items in the United States.

To what extent do you believe - well, the background is, as you know, China has a massive overcapacity for steel and its steel price is very, very low. We currently have antidumping duties on many Chinese steel products and also recently 232 duties also affect Chinese steel products.

So to what extent is the current inability to produce in the United States due to the fact that we do have tariffs now on the cheaper Chinese steel, while if it's made in China, you don't have to pay those tariffs on the steel?

MR. SCHAPPER: So I think what's an

important point here is we only use our Chinese manufacturing facility as flexible capacity and really only in times of stress.

So when hurricanes, or wildfires, or any of these natural disasters come about is the only time we actually ever go and use the Chinese capacity for anything inside the United States. The vast majority of all of our capacity is using U.S. steel with U.S. manufacturers.

So it's not, for us, it's not a question of going to China because it's cheaper. By the time it's landed here in the United States, these are, you know, and we engineer it here in the United States, and it's fabricated and landed, it's not because it's cheaper. It's only to placate lead time demands.

So as we know, when the power goes out, it's a practical issue, a health and safety issue, and it quickly becomes a political issue, so lead times and able to get the product quickly and to get the power restored is critically important to our customers, and so that is the only time is the ability to use it as a flex capacity. So if three hurricanes hit as opposed to one, we have the ability to react to help our normal utility customers.

CHAIR BUSIS: So presumably, steel produced in the United States is closer than steel produced in China. I mean, doesn't the shipping time from China reduce -

MR. SCHAPPER: Oh, yeah, and that's why really for us, it's not a cost advantage to go to China. For us, we look at it as a lead time. It's a flexibility issue in moments of crisis and that's what is most important to us.

CHAIR BUSIS: But isn't there inherent inflexibility of having to ship it all the way across the Pacific Ocean as opposed to -

MR. SCHAPPER: There is indeed, so what we do is we actually shift our U.S. production. You know, 95 percent of all of the production is here in the United States. So we shift our U.S. production to doing the emergency. So for example, in Puerto Rico, we had our Florida facilities and our Tennessee facilities working to hurry and ship things to Puerto Rico, but at the same time, there are a lot of contracts that we're contractually obligated to fulfill and then we can use some of that production in China to backfill those on a longer lead time basis.

So that's the way we do it. To us, it's about flexibility in the supply chain to quickly meet the emerging needs from any emergency situation.

MS. PETTIS: I have a question for Mr. New. In your statement, you state that the domestic companies have the capability to meet most, if not all, of current U.S. demand, but if U.S. consumers switch to U.S. producers, do you anticipate a change in prices positively or negatively in cost?

MR. NEW: I do not anticipate that there would be any significant increase in cost, in our cost. However, you know, we're facing this subsidized competition where, you know, we're not buying and our competitors obviously are not buying

U.S. manufactured steel in the form of, say, plate for instance. For a lot of these products, the plate alone is over 50 percent of the selling price of the pressure vessel.

And we're not talking about a little thing, little widgets that fit in shipping containers. We're talking about towers, process towers that might be 12-foot in diameter and 180 feet long. You know, they're not shipping in container ships, you know, at $2,000 a container or something like that. I mean, it's significant shipping costs.

And based on, you know, when my competitor in China can sell a pressure vessel to a plant down the street from me, landed in his plant for less than my cost of material, there's something going on there. I mean, it's not the fact that his labor is cheaper than mine. I mean, if I take all of my labor out, his price is still less than mine, and so it's not a matter of labor productivity.

It's a matter of there's somebody - you

know, there's a subsidy somewhere and it's either on the material side or it's on the transportation side, but there is a subsidy somewhere, and all we're asking for is a more level playing field.

And we've been placed at an even greater disadvantage because of the antidumping and other actions that have increased, and the tariffs now that increase the cost of imported steel and, you know, which has basically allowed the domestic steel mills to raise their prices as well, and that's just put us at a further disadvantage.

MS. PETTIS: Thank you very much.

MS. ROY: This question is for Mr. Strait. In your statement, you note that finding new production options for Tractor Supply Company's log splitters and dog kennels would be quite challenging, if not impossible. Can you tell us more about the options and impacts of shifting production out of China?

MR. STRAIT: The log splitters have a long development time. We spent about two years getting that running and a large investment.

There's a lot of robot welders and a lot of line development to get that done. That one is the primary difficulty there.

In the kennels and shelters, it's a little bit different. It's primarily a price-driven piece. We do those for our customers. We also sell domestic kennels. They're about 40 percent higher and we do sell some of them, just not very many.

So that primarily would be how we develop that, a source of supply that our customer can take? There's a lot of finishing that goes onto it. It's not no technology, but it's lower technology than the log splitters are.

MS. ROY: Okay, thank you.

MR. WINELAND: Thank you. Mr. Williams, in your statement, you note that since the announcement of the 232 steel actions, the price of domestically produced steel has increased substantially. What in your view would be the downstream impact of additional duties on steel products?

MR. WILLIAMS: Well, additional duties on steel products from China or on - yeah, on China. Essentially what that would do, it would level the playing field with cold-formed steel products that are domestically produced.

I mean, essentially that's what we're really trying to achieve because the reports that we have, and I've talked to the contractors who have procured the material that has actually been shipped to the job site, is some of the pricing on the Chinese steel that has been delivered is 50 percent less than domestically produced cold-formed steel stud and track.

So adding a tariff on top of it, on top of something that is duty free, would essentially begin to correct an inequity that currently exists.

MS. ROY: This question is for Mr. Zalesne. In your statement, you suggest that in response to the recent 232 action, China has shifted its imports to the United States from mill steel to fabricated structural steel.

Of course we have access to U.S. import

statistics. We would be interested, however, in your views on how the change in trade flows for the specific products mentioned in your testimony. That is what percentage have fabricated structural steel imports from China increased since the 232 actions went into effect, and the second question, and by what percentage have mill steel imports from China decreased since during that time?

MR. ZALESNE: Well, the data since the 232 has gone into effect is still pretty limited because the impact of that tariff is still relatively recent within the calendar, but I would say that in prior years, there's something like 56 trade cases that have been brought by private industry involving different aspects of cut-to-length plate and other types of structural products, and the net impact has been to drive the mill steel production percentage of Chinese imports down as direct imports. I don't know the number off the top of my head, but it's relatively low even prior to the 232.

What has happened though is, and we've

seen this in other areas, you have Chinese mill product going into countries like Vietnam for processing, going into Mexico for processing or fabrication and going into other countries, and then coming into the U.S. as fabricated product.

The Chinese piece, the piece that's been driving even prior to 232 has been the growth of what you're seeing in the Gulf coast where you're seeing things like this picture we're showing you in this presentation of structural steel modules.

I mean, projects that are being fabricated in steel frames with pipe racks, with all sorts of steel components consolidated into one unit, and shipped in on these vessels and driven through the Port of Houston and through these ports into projects, and these are 25, 30, 35, 40,000 ton projects.

And our fabricator members who used to do these projects routinely, 45,000 tons, you know, these are big projects, aren't even being asked to bid on them anymore. They're not even being asked to bid because a lot of these big players have just set up sales offices in Texas and just quote it right out from China.

So you're seeing - and this makes, it makes a fabricated - the numbers, I mean, I've shown you the numbers in terms of what, of the import increases, and you're seeing, like we said, $880 million worth of imports in 2017. That's prior to 232. 232 doesn't even take effect until this year.

And so what you're going to see is a continued increase in the ability of offshore fabricators to buy mill steel at untariffed prices, fabricate it offshore, and circumvent the tariffs, not just the 232, but all of the other trade actions that have been imposed or that have been, the trade orders.

The countervailing duty orders and the antidumping orders that have been put in place are all being circumvented. Every policy that we have set up to try to counter the impact of Chinese mill steel is being circumvented by fabricated steel coming in.

And it's, you know, in this forum, we're only talking about China, and China is 40 percent of that problem right now, but it's a problem with every country that we deal with right now from every border we have, but that's the primary impact.

And you can look at stadium projects out west. You can look at industrial projects in the southeast. You can look at bridge components coming into New York, and apparently you can look at emergency flood relief projects coming in through my friend here on the panel.

Chinese fabricated structural steel is coming into the U.S. in torrents and I don't know the numbers yet because of 232 because we just don't have a big enough sample size since 232 has kicked in, but the trend is certainly moving in that direction.

MR. BELL: I do have a specific example. Something that caught our attention at the SMA had to do with towers and lattices, and this is in the 10-digit classification code 7308.20.00.90, and we saw a spike in imports year-to-date through 2018 of 305 percent over the same period last year in 2017, and that actually tracks pretty well with the 232 proclamation.

So this is a serious issue, and this is just China moving up and down the steel supply chain and deciding where it's going to game the system.

CHAIR BUSIS: Well, that was very helpful. Thank you. Mr. Bishop, can you call the next panel? Thank you.

MR. BISHOP: We release this panel with our thanks and we invite panel eight to please come forward and be seated. Our first speaker on this panel is S. George Alfonso with HomeServe USA. Mr. Alfonso, you have five minutes.

MR. ALFONSO: Thank you very much. My name is S. George Alfonso, I'm of counsel with the Braumiller Law Group, and I represent HomeServe USA Corp. HomeServe is a U.S. company headquartered in Norwalk, Connecticut, providing affordable home protection products and services to the U.S. market since 2003.

HomeServe has a simple mission, which is to free its customers from the worry and inconvenience of home emergency repairs. HomeServe is a leading provider of home repair solutions with operations in 48 states. It serves more than 3.5 million customers across North America, including Canada, holding over 5.5 million service contracts.

HomeServe's customers are also residents or customers of more than 500 municipalities or utility providers around the United States that are most often its partners in making these services available.

HomeServe is preparing to launch a new, patented product into the U.S. marketplace called LeakBot. LeakBot is proven to dramatically lower the risk of water-damage leaks in domestic households, as well as minimize water loss and mold formation due to the accidental and oftentimes unknown or unrecognized leakage of water into a household.

This includes accidental leaks when the

homeowners are away, as well as other releases that are unobserved and ongoing, for example, a leaking washing machine hose or a hidden leak in a home piping system.

Each LeakBot device that HomeServe intends to import is likely to result in significant savings to each U.S. household that installs the product, due to the cumulative result of its home-protection water-damage loss prevention capabilities.

LeakBot is clipped onto the household's water main and works using two internal thermometers, and thus is classified under the Harmonized Tariff Code 9025.19.80, which covers various types of thermometers.

This same tariff provision also covers everyday digital thermometers found in home medicine cabinets, as well as in doctors' offices and hospitals, and is an HTH number included on the list of proposed items to be subject to the next round of Section 301 tariffs.

HomeServe is a subsidiary of HomeServe,

PLC in the UK, and in our experience in the UK and by extension the U.S. and other western countries, these countries do not currently have the manufacturing infrastructure in place for a new, innovative product like LeakBot, which is still in the development phase in the U.S.

At present, China is the home to the manufacturing capability of many of the components used in HomeServe's 9025.19.80 product and can satisfy HomeServe's production requirements with lead times measured in days rather than what we believe would be weeks or months from U.S. sources, if such U.S. sources for the components could be found at all.

HomeServe attempted a trial manufacturing build of 5,000 LeakBot devices in the UK, and the costs were approximately four times greater than those manufactured in China. In addition to the greater costs associated with UK production, the manufacture infrastructure in UK compared to China is not in place.

For example, the suppliers of key

components to the LeakBot device and the manufacturer of the LeakBot are in the Shenzhen province region of China, within a short car ride, and are able to supply parts as needed upon short notice.

The suppliers of the printed circuit boards are also situated nearby and are able to provide the LeakBot development team the flexibility of assessing and implementing changes to the electronic design in a short time frame, allowing rapid development.

HomeServe, PLC was effectively unsuccessful in identifying a supplier of packaging which produced good quality products while keeping to its strict pricing limitation in the UK, where this has been achieved in Shenzhen, China while keeping the short-term development loops in place.

The Insurance Information Institute, which has been improving public understanding of insurance since 1960, states that the average homeowner's loss for households that experience water-loss-related damages from leaks in homes and home water systems and water mains between 2012 and 2016 were $9,633, and that almost two percent of households experienced such damages each year, which amounts to an average of $192 for each household.

If this figure is multiplied by the millions of households in the U.S., the claim potential is in the billions of dollars. The potential for these claims will be factored into the insurance premiums of the U.S. home-owning public.

LeakBot is designed to protect the home from damage resulting from water incidents from the home's water system and not from water mains, so while it may not save the entire $192 of damages per household, we believe that it will prevent a significant portion of these damages from ever occurring.

Further, the HomeServe product has been proven to improve water conservation, due to its ability to detect water-delivery-system leaks and has also been proven highly effective in preventing the formation and growth of dangerous mold that can result from unobserved and undetected water leaks in a household.

The imposition of the 301 tariffs would significantly reduce the chances of HomeServe's product being successfully introduced into the U.S., and thus would threaten these potential substantial savings to U.S. consumers and their insurers due to water-damage-related and property-damage claims and would also hinder the significant environmental contribution this device would make towards water conservation and prevention of dangerous mold conditions. In summary --

MR. BISHOP: Thank you, Mr. Alfonso. Could you please finish up?

MR. ALFONSO: Yes. In summary, HomeServe states that the product it intends to import is expected to result in significant savings to many U.S. households who install the LeakBot product as a result of its proven home-detection, water-damage, loss-prevention capabilities, as well as its contributions to water conservation and mold prevention.

Imposition of the Section 301 tariffs would significantly reduce the chances of HomeServe's LeakBot product from being successfully introduced into the U.S. market, and therefore would prevent these potential substantial savings to the U.S. customers and their insurers, and also of the negative effect on the impact in forms of water loss and mold growth to the environment. Thank you.

MR. BISHOP: Thank you, Mr. Alfonso. Our next witness is Paul Blair, with the Americans for Tax Reform. Mr. Blair, you have five minutes.

MR. BLAIR: Good afternoon, my name is Paul Blair. I'm the director of Strategic Initiatives at Americans for Tax Reform. The goal of this and other similar hearings is to address specific economic practices in China, and it is our hope that the intended outcome of the USTR and this committee long term is a reduction in the overall trade barriers, not an escalation of permanent tariffs on imported goods.

Tariffs are taxes on American consumers. They are trade barriers that stand between international supply and domestic demand, and in many cases, they weaken our economy and in turn, our global competitiveness.

Because tariffs are taxes, the ultimate result is often higher prices for American buyers. Take imported automobiles for example; roughly tripling the U.S. import taxes to the highest level in history, a move under consideration, would drive up the price of a car by more than $4,000 and a pickup truck by more than $5,000 on average. And because of the broad nature of the list of products being considered for additional duties by this administration, like aluminum and steel, there are also impacts on cars assembled right here in the United States.

These are costs that aren't eaten by the manufacturer; they are passed down to the consumer, eroding many benefits of this year's tax cuts and jobs act, which is delivering tax relief to more than 90 percent of Americans. Tariffs that raise costs result in Americans having less money to spend and further limit our trade capabilities.

Now, while arguments have been made suggesting that tariffs on products like imported automobiles or steel may help American companies and producers, that argument does not exist for all of the products under consideration by this committee and administration.

President Trump has explained that this administration would, quote, Take multiple steps to protect domestic technology and intellectual property from certain discriminatory and burdensome trade practices. But again, not all of the products classified under the latest HTS duties are consistent with the mission of this 301 committee and that directive.

In particular, I'll bring attention to HTS numbers 8543.70.9930, and 40, which you heard about two panels ago on electronic cigarettes and vapor products imported from China.

Unlike other sectors where competition

labor costs and the existence of major markets drives production and trade, the vapor market is unique. With vapor products and electronic cigarettes, there exists a mutually beneficial balance between the growing needs of American consumers and the essential need for manufacturing abroad.

Adding these products to the list of those subject to any tariff will not advance the goals or intent of this 301 committee or this administration for several reasons.

First -- and you heard about this on two panels ago -- a reckless regulatory decision made by the Obama administration significantly reduces incentives for domestic investment because of the 2016 Deeming Rule, which changed the definition of tobacco products.

All products are currently required to undergo a lengthy, expensive pre-market review that, again, reduces incentives for domestic investment for manufacturing in the United States, until the FDA -- again, as my colleague, Greg

Conley, at the American Vaping Association, Guy Bentley at Reason, and several other panelists described -- comes up with a more transparent, workable regulatory system for vapor products, covered by HTS. Again, the two, 9930 and 9940 in the United States.

China will remain an important trading partner for this sector if only to satisfy rising consumer demands in the absence of U.S. investments. In 2016, vapor imports were about 342 million dollars, with more than 90 percent coming from China, according to the GAO. While the robust manufacturing sector in China has raised questions that led to other 301 concerns, this is a sector in China that is serving an unmet need in the United States.

These products were genuine Chinese inventions. This is not a technology that found its way into Chinese manufacturing towns as a result of intellectual property theft or low labor costs; they were genuinely and truly created in China, and then exported to the United States.

Now, while there has been some growth in domestic manufacturing of the liquids or pods associated with these products used in many American devices, the existence of two major markets for devices and liquids in China and the United States does not harm American economic interests.

From the FDA to internationally respected health bodies and institutions, there is a growing recognition that these products are harm-reduction tools. That makes your decision on this tariff of consequence to American public health as well. Most estimates suggest that they are at least 95 percent less harmful than cigarettes.

Because there are more than 10,000 retailers, 20- to 30,000 American employees impacted by this industry, these tariffs have direct impact, not only on U.S. jobs and the consumers who buy these products, but consumer health in general.

For these reasons, Americans for Tax

Reform urges you to reject the tariff discussed in my testimony, and I look forward to questions. Thank you.

MR. BISHOP: Thank you, Mr. Blair. Our next witness is Matt Kopko with Bird Rides, Incorporated. Mr. Kopko, you have five minutes.

MR. KOPKO: Members of the Section 301 Committee, thank you for the opportunity to testify today. My name is Matthew Kopko, director of Public Policy for Bird Rides.

Bird is a last-mile electric-vehicle sharing company dedicated to bringing safe, low-cost, environmentally friendly transportation solutions to communities across the United States and around the world.

Founded in 2017 and headquartered in Venice, California, Bird offers a fleet of low-speed electric scooters that can be accessed by a smart phone. Bird allows people to take a short journey across town to business meetings or appointments or cover that last mile to and from the subway or bus in a way that does not add to traffic congestion and is entirely electric.

We are expanding rapidly, and our business is at a point where significant disruption would hurt American innovation and harm consumers. Electric scooters, which are classifiable under 8711.60.00 of the U.S. Harmonized Tariff schedule, are on the proposed Section 301 tariff list. Naturally, these products represent the core of our business.

Even before the tariffs were announced, we had been exploring opportunities to build scooters in other jurisdictions, particularly in the United States. Nevertheless, there are simply no other producers of electric scooters that can manufacture to Bird's scale and needs within the short to medium term, therefore, Bird has to import them, and the predominant source is China.

Bird is an American startup success story. We have created billions of dollars in shareholder value, hundreds of American jobs, and income opportunities for thousands in less than a year. At this time, disruption to Bird's innovative business model will threaten our ability to continue to be the market leader and provide our valuable service to our American customer base.

As we understand it, the goal of the Section 301 duties is to protect cutting-edge American industries. Bird is such a company and such an industry, competing against mostly Chinese competition, and tariffs on our products would have exactly the opposite impact of what the administration hopes to achieve.

These tariffs, as proposed, simply would hurt American innovation in one of America's fastest-growing companies in its history. As with most young companies, Bird's growth trajectory and business is still in flux. The value of the scooters being imported is a fraction of a percent of the products contemplated for designation under this most recent notice.

For us, electric scooters are a critical link in a mostly domestic service and manufacturing supply chain. Putting a sizable tariff on scooters will do little to impact the

Chinese economy but risks the stratospheric growth of an American success story without the benefit of supporting an alternative American electric scooter manufacturer.

If we can have more time to build up American production capacity without jeopardizing our current success, we will be in a position to build much larger quantities of these devices domestically and in other jurisdictions outside of China.

Since January 1st, 2018 alone, we have grown from about 30 people to 300 and have created thousands of domestic employment and income opportunities for mechanics and others within our ecosystem. As we grow, we expect to employ thousands of Americans and generate income for hundreds of thousands. All these American jobs are at risk if our business model is prematurely disrupted.

Tariffs on electric scooters would also directly and negatively impact American consumers, because our electric scooters have rapidly become a sustainable, flexible, and affordable form of transportation. Indeed, our devices are increasingly becoming a key link in the transportation chain for urban commuters.

Higher prices for these products would directly impact commuters and erode our cost competitiveness with traditional modes of transportation.

301 committee staff, Bird will supplement its testimony as necessary with a post-hearing submission, but to summarize, electric scooters represent a very small slice of the current projected tariffs, but they are extremely important to a rapidly growing, U.S.-led industry that is creating hundreds, and soon thousands, of American jobs. We need the time to build up domestic and other supply options, and currently this action would severely hamper U.S. business and consumers without any appreciable impact on the Chinese economy.

I thank you for the opportunity to testify today, and I look forward to any questions.

Thank you.

MR. BISHOP: Thank you, Mr. Kopko. Our next witness is Gary Lobaza with MTD Products, Incorporated. Mr. Lobaza, you have five minutes.

MR. LOBAZA: Good afternoon. I'm Gary Lobaza, President of the U.S. Strategic Business Units of MTD Products. MTD is a third-generation family-owned company founded over 80 years ago in Cleveland, Ohio, where it is headquartered today. MTD makes walk-behind and ride-on lawnmowers, residential zero-turn lawnmowers, garden tractors, snow throwers, and other lawn and garden equipment.

You'll see our products at prominent retailers like Lowe's, Home Depot, Ace Hardware, Sears, Walmart, and yes, Tractor Supply Company. In addition, our products are sold in 1,300 locally owned, independent dealers. Our well-known brands are Cub Cadet, Troy-Bilt, Remington, and Yard Machine, and we also private-label Craftsman, Snapper, and Murray.

Historically, MTD has kept its production close to markets and currently manufactures in manufacturing facilities in Ohio, Kentucky, Tennessee, Mississippi, and Tempe, Arizona.

We employ over 4,000 manufacturing workers in the U.S., and 1,500 other people in R&D, corporate support, and sales and marketing.

MTD imports small engines for inclusion in the manufacture of lawn and garden equipment products, including snow throwers. These engines were included on Annex C of the USTR Section 301 notice, and could be subject to an additional 25 percent duty as a result of this proceeding.

MTD seeks the removal of these small engines from the list, as their inclusion would cause significant harm to MTD's operation and force the company to consider drastic alterations to its present business model, making it unprofitable and impossible to keep manufacturing operations in the United States, a result MTD does not desire.

MTD is dedicated to keeping jobs in the U.S., and we prioritize sourcing intermediate components domestically where possible. The reality, however, is that we must import some components to remain competitive, and importantly, keep manufacturing jobs in the U.S.

MTD is the largest producer of snow throwers in the U.S., which are made by workers in our Ohio and Mississippi plants, where we employ 1,000 and 1,200 workers respectively. The engines that we use to make these snow throwers were imported because there is no domestic production of these specific small engines.

Even if there were an alternative domestic or foreign supplier, switching to a new component is not something that can be done immediately. Identifying and testing an alternative engine that would meet the strict technical specifications and become certified and compliant with U.S. EPA emission standards would take two or three years.

The reality is, we have no alternative choice and will have to absorb extra costs if potential tariffs are imposed. This will come at a tremendous expense to our company, and without the engines, we cannot make snow throwers, and without the ability to make snow throwers, we can't employ our workers.

To be clear, MTD supports the administration's objective of curbing China's abuse of the IP laws and technical theft. We have experienced negative impact of these unfair practices firsthand. Our products are being reverse-engineered by Chinese competitors, leading to situations where we have been forced to compete with cheap Chinese versions of our product.

We are concerned, however, that the administration's approach will have a severe, unintended consequence for our company and workers, because it does not take into account the relationship of imported components and U.S. manufacturing.

In this proceeding, our main concern is the potential application of the additional tariff on our small-engine imports. This concern is not theoretical, our company has already felt the impact of raw material increases in steel and aluminum, key components of virtually all of our products, as a result of the Section 232 tariff. Moreover, we are also importing a number of products that include the USTR Section 301 tariff Annex A list as of July 9th and have been subject to the 25 percent tariff.

None of these tariffs, either proposed or in effect, cover the downstream, finished, imported products that our domestically products compete. As a result, we are currently experiencing increased competition from low-priced Chinese imports. If these downward price pressures were not enough, we are facing potential increased duties of 10 percent on literally thousands of additional manufacturing components that were included in the administration's most recent 301 action. Well over 90 percent of our components are affected.

The imposition of these tariffs will make it difficult, if not impossible, to reflect these additional costs into the prices already developed for 2019. This will impose significant financial hardship on the company. For MTD, and its workers, the present conditions of tariff uncertainty are unsustainable and threaten a potential devastating outcome.

We do not see how increasing tariffs on the component products used in American manufacturing will achieve the administration's desired effect of curbing China's behavior with respect to IP violations, our targeting Made in China 2025 priorities. The small engines we import do not employ the cutting-edge technology that has a target of the Chinese IP theft.

What is certain, however, is that the imposition of tariffs will harm MTD's manufacturing operation and threaten the jobs of its employees. The only apparent beneficiary are Chinese companies of unfairly traded downstream products who will be well-positioned to capture market share, such an outcome -- that the administration is not their intent.

On behalf of MTD Products, I urge the administration to reconsider its approach and create a more appropriate Section 301 remedy list that supports U.S. manufacturing interests. Thank you for allowing me to present testimony, and I'm happy to answer your questions.

MR. BISHOP: Thank you, Mr. Lobaza. Our next witness is Nathan Walker with Goodman Global, Incorporated. Mr. Walker, you have five minutes.

MR. WALKER: Thank you. To the Chairman and members of the committee, my name is Nathan Walker, Senior Vice President of Goodman Manufacturing Company, a Texas-based U.S. manufacturer of HVAC equipment since 1975.

I'm here today to discuss the reasons USTR should remove certain components that Goodman uses in the production of heating, ventilation, and air conditioning equipment from the proposed list of products subject to additional tariffs.

Goodman's products impacted by the proposed list include certain power cords, pressure switches, permanent split capacitor motors, and electronically commutated motors.

The top of my written testimony contains the specific HTSUS subheadings at issue, which Goodman discusses more fully in its written comments.

In 2012, Goodman, which was one of the largest HVAC manufacturers in the United States, was purchased by Daikin, one of the largest HVAC manufacturers in the world. Starting in 2015, we have constructed a facility outside of Houston, Texas, at the investment cost of approximately 500 million U.S. dollars, known as the Daikin Texas Technology Park, or DTTP.

It is no ordinary plant, it is the third-largest manufacturing plant in the United States. To put its size into perspective, the roof covers the equivalent of 74 football fields, and we anticipate having 7,000 skilled American workers at the DTTP by 2020.

Included within the DTTP is the North American Research and Development Center, which has increased the number of engineers and technical professionals it employs by 2.5 times the number of American workers it had employed prior to Daikin's acquisition of Goodman.

Our goal is to manufacture as many Daikin and Goodman products as possible for the North American HVAC market in Texas at the DTTP. In order to produce the Daikin and Goodman products at the factory, Goodman purchases components from the United States as well as globally, including from China.

Imposing a 25 percent tariff would negatively impact Goodman, our employees, and the American consumer by significantly increasing the cost of operating in the United States. Goodman understands the philosophy of the administration is to have short-term pain for U.S. companies for greater long-term success. However, this is feasible only when all of the competitors are located in the United States and can equally share the burden.

Because many of Goodman's U.S. competitors have moved production of some products sold in the U.S. market to other countries such as Mexico, they will not be subject to the same tariffs on the components in question. In this situation, Goodman's competitors that have moved production outside the United States will not share in the same short-term pain as Goodman. This, in essence, rewards companies that have invested outside the U.S. and punishes companies like Goodman that have invested heavily in the United States.

Because of this dichotomy, we do not believe that the administration should employ its short-term pain policy to the HVAC industry. In addition, according to the USTR, these tariffs are for the purposes of addressing unfair practices from China regarding technology transfer, intellectual property, and innovation. Quite simply, the components in question do not fall into any of these categories, because they are all mature technologies that are neither strategic nor advanced.

For example, the technologies for the pressure switches in PSC motors have been around for decades, and the technology for the power cords have not changed in almost 12 years. Moreover, an affiliate of Goodman makes the ECM motors that Goodman imports from China. It should also be noted that Goodman knows of no U.S. manufacturers for many of the parts it imports on the proposed list.

Even if Goodman were able to find a qualified supplier for these components outside of China, qualifying components from new suppliers in Goodman's finished products is a very time-consuming and complex process, because Goodman's products are regulated by several federal regulations and agencies.

Any time Goodman modifies components within a finished product, it has to re-evaluate the product's performance via extensive engineering analysis testing, documentation review, and simulations. Goodman is then required to submit extensive information and data to the Department of Energy and the Environmental Protection Agency. For example, Goodman is required to comply with 10 CFR 429 for certification compliance and enforcement for consumer products and commercial and industrial equipment.

In addition, any modified products must meet applicable safety standards and codes. Assuming arguendo that Goodman could identify a supplier with enough capacity to supply these components, it would take two to five years to change suppliers and get their relevant agency approval.

Again, this would hamper Goodman's efforts to produce HVAC products in the United States, something that our U.S. competitors that moved production outside of the United States would not be required to do.

Based on the foregoing, Goodman urges the USTR not to impose a 25 percent tariff on parts that Goodman uses to manufacture HVAC products in the United States. Thank you for the opportunity to testify, and I'd be glad to answer any questions you may have.

MR. BURCH: Thank you, Mr. Walker.

Our next panel witness is Bo Yi of Southeast University Law School. Mr. Yi, you have five minutes.

MR. YI: Good afternoon, distinguished Chairperson and members of the 301 committee. My name is Bo Yi, Associate Professor of International Trade Law from China.

I would like to express my warmest thanks to the 301 committee for the opportunity to offer comments.

I am pleased to submit this statement for opposing the USTR's proposed action of Section 301 increased tariffs on a list of products regarding irons and steels under HTS Code Chapter 73, which are 7308.10.00, 7308.20.00, 7308.90.30, 7308.90.60, 7308.90.70, and 7308.90.95, and aluminum under HTS Code Chapter 76. That detail is 7614.10.10 and 7614.90.20, irons and steels and aluminum should not be subject to additional tariffs.

Reading the following, the second is, production of steels and aluminum imported from

China have been suffered by punitive tariffs of Section 232, even if productions of steels and aluminum under the HTS codes, which will be imposed tariffs of Section 232 and of Section 301, respectively.

A lot have seen it makes no sense to impose tariffs of Section 301 to productions of steel under aluminum, because increased tariffs of Section 301, which will also apply to the productions of irons and steels of tariff Chapters 73 and aluminum, tariff Chapter 76 of HTS Codes, imported from China, are likely to hit with multiple rounds of tariffs to business and industries of Chinese steels and aluminum. It is not fair to China's steels and aluminum business and industries.

The second reason is that certain steel and aluminum items imported from China covered by those proposed Section 301 tariff measures are not strategically to or related to the Made in China 2025 strategy.

The proposed 301 tariffs constitute the

United States administration's sharpest response to China's launch of its Made in China 2025 strategy. The policy, announced in 2015, highlighted ten sectors for support on the way to China becoming an advanced manufacturing power: information technology, high-end machinery and robotics, aerospace, marine equipment and ships, advanced rail transport, new-energy vehicles, electric power, agricultural machinery, new materials and bio-medical.

However, certain steels and aluminum items imported from China covered by these proposed Section 301 tariffs measures are not strategically important or related to the Made in China 2025 strategy.

The third reason is that the United States should resolve relevant differences to China through dialogues and cooperations.

China and the United States have a basis to resolve their disputes through cooperation, and it would be unwise of the United States to return to unilateral action of the proposed 301 tariffs against China. It is also the expectation of the American people to resolve U.S.-China differences through dialogue. Imposing import tariffs in each other will not only hurt the economies of the United States and China, but will also destroy the whole world.

Resolving differences through dialogues between the United States and China is also the expectation of the international community. China and the United States have a basis for dialogues to resolve the difference.

The conclusion is the two, in view of the above, steels and aluminum should not be subject to additional tariffs of Section 301. The second is, as one international scholar from China, I hope and I wish that the United States Government adequately address economic and trade differences between China and the United States constructively to create a suitable legal environment for trade exchanges and investment cooperation between Chinese and American enterprises. Thanks for your consideration. That's all.

MR. BURCH: Thank you, Mr. Yi. Our next panel witness is Jake Colvin of National Foreign Trade Council. Mr. Colvin, you have five minutes.

MR. COLVIN: Thank you, and thank you for the opportunity to testify. My name is Jake Colvin, Vice President for Global Trade and Innovation at the National Foreign Trade Council. It is a business association dedicated to making America more successful in the global economy.

NFTC is concerned about China's trade practices and policies, but we do not believe that the tariffs under discussion today would be effective in changing Beijing's behavior, and we are concerned that the inclusion of the products on the Annex C list would cause disproportionate economic harm to U.S. interests.

In my written testimony I provided a list of priority subject headings that our members have indicated would cause particular harm to the U.S. economy. I want to focus the rest of my testimony here on several subheadings from the list that we prepared.

First, consumers and working families are likely to face higher costs for a variety of products, from blood oxygen monitors to television remote controls and Christmas lights, to gazebos and sheds.

Tariffs on the thermometer tariff line would negatively affect nearly every American household. This line covers common consumer products including outdoor thermometers, digital thermometers, and temperature sensors, which are a key part of household thermostat systems.

Thermostats are already subject to a 25 percent tariff which took effect on July 6th. Tariffs on thermometers would likely lead to higher prices for thermostat systems and higher energy bills for consumers.

The proposed tariffs on motion sensors would affect a core part of home security systems. These tariffs will increase prices for U.S. consumers and would likely lead to the diminished adoption of technologically advanced home security systems.

Tariffs on thermometers, motion sensors, smart electric switches, and other consumer goods on the Annex C list are expressly contrary to the USTR's stated aim of avoiding placing tariffs on goods that are commonly purchased by American consumers. These consumer products are not targeted in the Made in China 2025 Plan, and they are not part of China's core industrialization strategy.

Tariffs will also negatively impact the competitiveness of U.S. businesses. Our member companies import components, including electronic integrated circuits and machine parts, and accessories for the manufacture of semiconductor devices, electronic circuits, and flat panels. These components are then variously integrated into finished machinery and products for domestic use, as well as export.

Tariff on these subheadings in particular will cause disproportionate economic harm to the competitiveness of U.S. businesses, raising costs and creating a competitive disadvantage vis-a-vis their foreign competitors.

Tariffs on these products would also raise costs for companies providing cloud computing and cloud-enabled services. Tariffs on connectors for optical fibers, optical fiber bundles, and cables would raise costs for U.S. telecom equipment and manufacturers and increased costs for telecom companies.

Tariffs on motion sensors and thermometers will hurt the small business retailers and installers who sell and install home security and thermostat systems, and tariffs on tools for 3D printing will hurt small businesses looking to use this technology to revolutionize their production processes.

Finally, NFTC is increasingly concerned about the likely harm to U.S. businesses, farmers, workers, and working families, of the rising trade tensions as a result of the remedy stemming from the Section 301 investigation.

The repeated use of Section 301 to

threaten new rounds of tariffs is adding costs and creating uncertainty for the U.S. business community, which will undermine U.S. growth and slow decision-making among American businesses.

In conclusion, we ask USTR to remove the HTS subheadings listed in my written testimony from the list of products subject to tariffs, and more broadly, we hope that the U.S. government will seek to resolve outstanding concerns to direct consultations with the Chinese government while also working with its allies to apply pressure jointly on China to reform its policies and practices.

And we strongly encourage the U.S. government to refrain from further retaliatory tariffs against China, which will increase the harm to American businesses and consumers. We are concerned that the current trajectory will lead to the imposition of permanently higher trade barriers in the United States, which is not the intended use of the Section 301 statute.

Thank you for your consideration of

these comments and the opportunity to testify.

MR. BURCH: Thank you, Mr. Colvin. Our last panel witness is Gregory Husisian from Alps Electric. Mr. Husisian, you have five minutes.

MR. HUSISIAN: Okay, thank you. I'm hoping my placement is the committee's judgment that they're saving the best for last, or perhaps at least the best tariff exemption request for last.

At any rate, I'm a partner with the law firm of Foley & Lardner, and I'm here with my colleague, Ashley Gifford, as well as Scott Segawa from Alps North America. I thank the committee for the opportunity to present today.

We've heard about a lot of different products today. The ones that we're going to talk about are ones that probably everybody in this room owns, but is completely unaware that they own. We're talking about the electronic parts and components that drive the products, the automotive systems, the smart phones, the play consoles; things like that, that we all use.

Many of these products are supplied by Alps North America, which is the U.S. subsidiary of Alps Electric Company, which is a global corporation headquartered in Japan. Alps North America is a leading provider of these electronic switches and controls, and it sells them to allow its customers to develop and manufacture the electronic products that are essential to any modern economy, including sensors, switches, capacitive touch panels, and other electronic components that are in the automotive systems, your auto infotainment systems, and other familiar electronic devices.

Now, manufacturing and selling these products is an essential part of any modern economy, but it's a low-margin business. Operating profitably requires relying on a far-flung global supply chain that allows Alps to meet the demands of its global customers for highly reliable, low-cost electronic components. This allows Alps North America and its hundreds of employees in the United States to supply electronic components goods to leading U.S. automotive and electronics companies, indirectly supporting these companies as they add substantial U.S. content, and support high-wage manufacturing jobs here in the United States.

Alps largely produces the products it sells to U.S. companies within its own and affiliated facilities. It is not possible for Alps to duplicate these factories within the United States. By importing these products from its factories in China, Alps North America benefits the U.S. economy by supporting U.S. innovation, substantial downstream production, and the maintenance of good, high-paying manufacturing jobs.

Now, the entire aim of the Section 301 process is supposed to be aiding U.S. competitiveness by combating actions the Chinese government may have taken to force the transfer of U.S. intellectual property rights and know-how to Chinese companies, all while avoiding undue burden on U.S. manufacturers.

Now, three tariff lines from the second list of announced potential tariff lines illustrates the disastrous impact that these proposed tariffs will have, not only on Alps, but on its downstream customers. I'm speaking of tariff lines 8543.70.9960, 8529.10.9100, and 8543.70.4500. Now, these tariff lines hardly represent items familiar to most customers. The 8529 tariff line, for example, is a form of specialized antenna, and HTS 8543.70.4500 is a specialized type of electric synchro.

Yet, Alps North America sells millions of dollars of these types of parts every month to key U.S. producers such as U.S. automotive, home goods, and electronic industry players. If Section 301 tariffs are placed on these products, Alps North America will have no choice but to pass on these tariffs to its customers.

This means that Alps North America's loyal customers will be paying 25 percent more for the same electronic parts and components that their competitors can access overseas without paying any tariff at all.

Now, if you consider the whole of the imports for these three tariff lines, it gets much worse. 2017 imports of these three tariff lines represented 1.25 billion dollars of trade from China. A 25 percent tariff on this trade would be a 300 million dollar annual tax on the leading U.S. automotive and electronics and home goods producers in the United States.

This is a massive tax that these downstream producers will pay that their competitors, who assemble overseas, will not. Forcing U.S. manufacturers in these leading areas that add substantial value-added to pay hundreds of millions of dollars of inputs that their foreign competition is getting tax free, runs directly counter to the purpose of the Section 301 process.

Now, Alps is not aware of any Chinese producer of the types of products covered by these tariff lines that has benefitted from improper Chinese intellectual property practices. Whatever steps China is taking to advance its own industrial interests have not made their way to these types of electrical parts and components that are manufactured and sold by Alps.

The only companies benefitting from Alps' substantial investment in its own product innovation at its own factories are Alps and Alps' customers. Now, Alps North America is sympathetic to the fine line the U.S. trade representative needs to follow in these proceedings, but if the goal is to try to counter and deter alleged Chinese intellectual property abuses while minimizing the impact on U.S. manufacturers, imposing this 25 percent tariff that is used on products and components that are relied upon by such important downstream U.S. manufacturers runs exactly counter to these goals. We are happy to answer any questions that the committee may have.

MR. BURCH: Thank you, Mr. Husisian. Mr. Chairman, this concludes all testimonies for this panel.

MS. PSILLOS: So the first question is for Alps Electric. Does Alps Electric have any production facilities outside of China, and if so, could you shift production of those facilities to supply its North American customers?

MR. HUSISIAN: Yes. Alps has a global supply chain. It has facilities in Malaysia, in Mexico, and Japan in addition to China. However, it doesn't mean that every factory can produce every product. The problem is, based upon its global supply chain and the relative advantages of producing in these places, different parts and components come from different places. So it's not a simple matter to just say, Oh, we're going to produce these in Japan now. It would cause a severe impact on Alps' ability to supply the U.S. market.

There's also issues of qualification, particularly in the automotive industry. You can't just shift factories, because they have exactly qualified certain types of products, and that's a multi-year process, in terms of the automotive industry. So that's going to further complicate any ability to cross-shift production.

MS. ROY: Next question is for Mr. Alfonso from HomeServe. Mr. Alfonso, you mentioned that LeakBot is a new, innovative product, and that it is still in the development phase in the United States. To your knowledge, is the government of China or any Chinese companies interested in developing similar technology or product?

MR. ALFONSO: Not to my knowledge, and I think if that's in reference to China 2025, this is technology that's not a cutting-edge matter, by any means. This is just a situation where the most feasible, economic place to test and construct LeakBot is in China right now, and the attempts to do so in the UK have clearly shown that the UK, U.S., and western countries don't have that capability at this point.

MS. ROY: Okay. Thank you.

CHAIR BUSIS: This question is for Mr. Blair. I'm going to ask you a hypothetical question. You testified about regulatory barriers. Assume that the regulatory barriers were addressed and there were no longer the regulatory barriers you mentioned for e-cigarettes. In that circumstance, do you think that e-cigarettes and vaping machines could be produced in the United States?

MR. BLAIR: At some point it absolutely could be possible. With regards to a question about the impact and benefit of lower-cost products available in other markets at present, one of the biggest incentives, as far as we've seen it, and certainly others on the sixth panel have seen, for current adult smokers to transition from cigarettes to e-cigarettes is price.

So any sort of disincentive for an import of products, which again, as Greg Conley pointed out earlier, are currently only manufacture available in China. Anything that raises the cost, say for example, the U.S. manufacturing market existing only because tariffs discourage manufacturing abroad, would discourage current consumers of cigarettes from transitioning to e-cigarettes because the prices were higher.

And so the benefit of international supply of that product right now is that it is produced less expensive, and it may be, if it was manufactured in the United States.

So certainly, if we get rid of the regulatory barriers, at some point there may be a point at which we could produce the product at the same cost, and I think getting rid of the regulatory barriers is a -- it's a big step. Certainly we're working with the FDA and HHS to achieve that goal.

So hypothetically in the future, it may be possible that the price at which we could manufacture in the United States is the same that it is in China. But any sort of arbitrary imposition of taxes that discourages foreign investment in this space does harm public health at some point, if the only alternative was U.S. manufacturing that couldn't do it as cheaply as it's done internationally.

MS. PETTIS: This is a question for Mr. Kopko from Bird Rides. You've testified that there are no sources outside of China that can meet your company's demand in the short to medium terms. In your view, how much time would it take for a non-Chinese source to produce these products?

MR. KOPKO: We are currently in those types of discussions with a number of jurisdictions, including the United States. However, I think we are at a minimum of more than a few months away, so I don't want to have any sort of idea that we could rapidly get there. So I think that's why I say short to medium term, because it would take a while to be able to build the appropriate facilities.

MS. PETTIS: Okay, thank you.

MS. HOLLAND: This question is for Mr. Lobaza from MTD Products. You've asked us to remove various small engines from the list of proposed tariff lines because there are no viable alternative sources. In your view, what factors have resulted in China being the only global source of small engines?

MR. LOBAZA: In this particular case,

there was a domestic manufacturer that went bankrupt, and there was an industry that already existed in the Chinese environment around these engines, which are referred to as horizontal-shaft engines.

So the development that occurred has subsequently kind of stayed there, really leveraged that aspect of the supply chain, even though for vertical-shaft engines, there are multiple alternatives.

In addition, recently in our industry, specifically in the residential space, a lot of the development dollars are going -- this is a very old technology. It's not connected product, it's not electronic fuel-injected product, so a lot of the technologies that are invested in those, which are higher-end engines, as well as battery- and motor-driven applications, which do not serve this well, because it's snow-thrower related, which requires a lot of power.

MS. PSILLOS: The next question is a similar question for Mr. Walker. You've asked us to remove four tariff lines related to HVAC equipment, and in your view, what factors have led to the situation where these products are currently only or mainly produced in China, and does the lack of alternative sources exist at the 8-digit tariff level, or are you aware if it is at a much more specific level?

MR. WALKER: I'll answer the first question first, which is very similar to the gentleman from MTD. What we've seen is the older technology migrated to low-cost supply countries 10 to 15 years ago. So we still have quite a significant supply base inside the United States, but they tend to be on the higher-margin, higher-value added, higher-efficiency, more premium product lines for both us and the supplier.

And so once the components themselves reach the point of commoditization, my personal opinion is that it no longer made financial sense for the U.S. manufacturers to continue to invest in making those products here, so they went to low-cost sources.

And could you repeat the second part of that question for me, please?

MS. PSILLOS: Sure. So the four products that you are requesting to be removed, are you aware, is the capacity mainly in China at the full 8-digit level, or is it a much more specific, maybe 10-digit or even more specific product level, if you're aware?

MR. WALKER: Without being an expert in the 8- versus 10-digit, I would say from an HVAC motor supply standpoint, the vast majority of the capacity lies in China. There is some in Mexico, but they cannot produce the capacity that we need, because we've gone and asked them that specific question.

So if I can get back to you on the 8-digit versus 10-digit, I just don't have that answer at this time.

CHAIR BUSIS: This next question is for Professor Bo. You have -- in your testimony, you criticized the U.S. tariffs on steel and aluminum, and I guess more generally, the U.S. tariffs as being what you called unilateral.

As you may be aware, the government of China has responded to the U.S. Secretary on Tariffs by imposing Chinese tariffs on U.S. goods. I guess you would also call that unilateral. Do you also have equal criticism for the actions of the government of China?

MR. YI: Thank you for the question. I want to emphasize that China's response to the United States' tariffs to China's goods imported to United States because we also have domestic regulations to rule these measures, and for international law aspect. As we enter combination treaty, we also provided that if one country also when the implementation of the international treaty, when they face unexpected situation, for example, that the United States first to take the unilateral action against China, then we can also make retaliation to goods imported from the United States to China.

But to my knowledge, China's government would like to negotiate and dialogue with the United

States government to resolve any difference. Thank you.

CHAIR BUSIS: Right, but if you want to negotiate, you just told the United States to negotiate without imposing tariffs. But you're telling me China is imposing tariffs. So obvious, China doesn't want to negotiate instead of imposing tariffs. China did impose tariffs, right?

MR. YI: But for China's government, according to our domestic law, for example, you use Section 301 to initiate the tariffs against Chinese goods, but we also have our domestic law to initiate the retaliatory action against America. That is equal. But we would like to negotiate with the American government, if the American government would like to negotiate with the Chinese government, I just think there's no difficulties.

CHAIR BUSIS: Did the United States agree to China's domestic law, or did China adopt that domestic law unilaterally?

MR. YI: In my last testimony last May, which I also focused that we would like to resolve all the disputes and negotiate.

MR. WINELAND: Thank you. Mr. Colvin, you may have the last word. I wanted to ask you, you talked about the impact on consumers of potential tariffs, and you used thermometers and motion sensors as examples of that. For those two products, have you estimated the expected price increase that consumers would face due to the additional duties? In other words, would consumers bear the full increase in cost?

MR. COLVIN: Thank you for the question. So we talked with our member companies about the price passed through to consumers, and they haven't passed on specific cost estimates, but what they've said to us is that, since many of these items are sold at the lowest margins, that they would expect companies to pass along the cost increases to consumers.

It wouldn't likely be a one-to-one price increase, but it would depend on the availability of alternative sources of supplier contract terms and qualifying suppliers, but I just don't have specific details for you.

CHAIR BUSIS: Okay. Before we recess this hearing, a reminder that this is the first day of the hearing. The second day of the hearing will start tomorrow at 9:30 a.m. We'll start with Panel 9. So until then, we will recess this hearing.

(Whereupon, the above-entitled matter went off the record at 5:37 p.m.)