UNITED STATES TRADE REPRESENTATIVE

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301 COMMITTEE

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SECTION 301 TARIFFS PUBLIC HEARING

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WEDNESDAY
JULY 25, 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, Megan Grimball and Arthur Tsao, Co-Chairs, presiding.

PRESENT
WILLIAM BUSIS, Chair, U.S. Trade Representative
MEGAN GRIMBALL, Chair, U.S. Trade Representative
ARTHUR TSAO, Chair, U.S. Trade Representative
WILLIAM BOBSEINE, Department of Commerce
CAROL HENNINGER, Department of State
JULIA HOWE, U.S. Trade Representative
MAUREEN PETTIS, Department of Labor
TRACY ROY, Department of Homeland Security, Customs and Border Protection
AMY ZUCKERMAN, Department of Treasury

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

WITNESSES PRESENT

STEVEN BLUST, Institute of International Container Lessors, Ltd.
CATHERINE BOLAND, Motor & Equipment Manufacturers Association
STEFAN BRODIE, Purolite Corporation
ED BRZYTWA, American Chemistry Council
LISA BURNS, Reynolds Consumer Products, LLC
ROBERT BURNS, PeopleforBikes & Bicycle Product Suppliers Association
CHRIS COAKLEY, Foss Maritime Company
KENT DELOZIER, JB Hunt Transport, Inc.
MARK DePASQUALE, National Portable Storage Association
DONALD DiCOSTANZO, Pedego, Inc.
DANIEL DRELLA, Schneider National Carriers, Inc.
ROBERT FARBER, Sea Box, Inc.
RYAN LIN, Lin Engineering, Inc.
MARK MAROON, Maroon Group, LLC
CHRISTOPHER MINER, Mobile Mini, Inc.
AARON PADILLA, American Petroleum Institute
PATRICIA PHILLIPS, SNP
JIM PIGOTT, Medline Industries, Inc.
DIANA DIMITRIUC QUAIA, Goal Zero, LLC
JAMES SILVER, International Tank Container Organization

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

(9:29 a.m.)

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

CHAIR BUSIS: Good morning and welcome. The Office of the United State 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 18th, 2017. On June 20, 2018, USTR published a federal register notice announcing the trade representative determination to impose an additional duty of 25 percent on products from China with an annual trade value of approximately $34 billion. That notice is published at 83 FR 28710.

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

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

Before we proceed with the rest of the session, I will provide some procedural and administrative instructions and then I will ask the agency representatives to introduce themselves.

This hearing is scheduled for two days, finishing mid-day today. To be clear, this is the second day of our hearing.

We have three panels of witnesses scheduled to testify today. We will have a brief break between panels.

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 that 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.

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 asks that a witness conclude a response. Witnesses should recall that they have a full opportunity to provide more extensive responsive in their post-hearings submissions.

No cameras or 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.

We are pleased to have international trade and economic experts from a range of U.S. government agencies on our panel. If you could introduce yourselves starting with Carol.

MS. HENNINGER: Hello, I'm Carol Henninger from the Department of State.

MS. PETTIS: Maureen Pettis, Department of Labor.

MS. ROY: Tracy Roy from the Department of Homeland Security, CBP.

MS. ZUCKERMAN: Hi, Amy Zuckerman,

Department of Treasury.

MR. BOBSEINE: William Bobseine, Department of Commerce.

MS. HOWE: Julia Howe, U.S. Trade Representative's Office.

CHAIR BUSIS: William Busis, USTR and Chair of the Section 301 committee. Mr. Bishop, if you could introduce our first witness?

MR. BISHOP: Good morning, Mr. Chairman. Our first witness on this Panel is Catherine Boland of the Motor & Equipment Manufacturers Association. Ms. Boland, you have five minutes.

MS. BOLAND: Good morning and thank you for the opportunity to testify today. My name is Catherine Boland and I am the vice president of legislative affairs for the Motor & Equipment Manufacturers Association.

MEMA represents manufacturers of motor vehicle parts, components and systems, supplying the automotive and heavy vehicle original equipment and aftermarket industries.

These suppliers are the largest sector of manufacturing jobs in the U.S. directly employing over 871,000 Americans in all 50 states. Suppliers operate in a global supply chain of domestic and international suppliers and customers.

China is a large and important trading partner for our industry, with many U.S. motor vehicle suppliers maintaining manufacturing facilities in China, to service Asia and the rest of the world.

Domestic capacity is simply not available for some of the necessary materials and parts from China relied on by suppliers.

MEMA supports the administration's agenda to assure free and fair trade for America. However, we urge USTR to remove products included in, but not limited to, HTS Chapters 39, 84, 85 and 90. Products under these chapters are used by suppliers either as part of the manufacturing production line or as materials and tools to produce vehicle parts.

The proposed tariffs on the listed products will cause disproportionate harm to U.S. interests by disrupting American manufacturing operations and increasing costs to both U.S. producers and consumers.

The increased cost will create a significant harmful burden, particularly on the small and medium businesses in my industry, including the possibility of forced bankruptcy and loss of income for these companies.

Our industry has long supported aggressive policies to protect IP rights and enforce IP laws. Here in the U.S. and around the globe, including China.

MEMA shares the administrations concerns regarding Chinese industrial policies that promote technology localization, such as Made in China 2025.

These policies increase vulnerabilities for U.S. companies such as unfair practices focused on technology transfer and weekend IP protection. They make it difficult for a non-Chinese company to compete in China and abroad.

However, many of the products we are requesting to be removed from the list are primarily materials or parts used by the industry for manufacturing standard components for vehicle manufacturer customers and are not linked to China's 2025 advanced industrial polices.

For example, HTS Chapter 39 includes resins that are proposed to be subject to tariffs. These resins are basic primary material feed stocks for products such as vinyl and plastics. They're not advanced technologies and are not vulnerable to IP theft in China.

In many cases, these products are not available at sufficient capacity in the U.S. or other markets. Placing a 25 percent tariff on resins from China will severely disrupt the U.S. resin market, which has already seen disruptions this year with tight supplies.

A large Tier 1 OE supplier shared with me that a tariff on resins would cost them at least one and a quarter million dollars during the first six months tariffs are in effect.

As another example, there are several motors under Subheading 8501 that are imported by suppliers. These motors are not linked to China 2025 policies either, instead they are used by suppliers for a variety of simple applications in a vehicle, such as a powered automatic seat, power windows or windshield wiper motors.

Tariffs on these motors will simply increase prices for suppliers. In both examples, suppliers are generally unable to pass on cost increase to their customers, the vehicle manufacturers.

Instead, they will either absorb the cost increase seeking cuts elsewhere, such as jobs, or their customer will seek imported sources of finished products leading to lost business for that supplier.

While the administration's focus on protecting IP as something MEMA supports, tariffs on these manufacturing imports -- inputs will not protect IP. Instead, they will lead to threats of increased costs, lack of capacity, loss of customers and overall certainty.

These examples are not isolated. Since April, my colleagues and I have fielded countless calls and emails from members with operations all over the country who face potential tariffs on a number of imported goods.

The cost of these tariffs will not only impact these companies but ultimately U.S. consumers and our country. The loss will be -- the price will be loss of current jobs, constrained access to materials and parts incurred curtailed future U.S. investment by vehicle suppliers.

In closing, we urge USTR to not move forward with broad based tariffs. Additionally we continue to recommend bilateral discussions between the U.S. and China before implementing additional tariffs that will harm our industry, job creation, domestic investments and the overall U.S. economy. Thank you very much for your attention and I look forward to your questions.

MR. BISHOP: Thank you, Ms. Boland. Our next witness is Robert Burns with PeopleforBikes & Bicycle Product Suppliers Association. Mr. Burns, you have five minutes.

MR. BURNS: Members of the Committee, thank you for the opportunity to testify on behalf --

MR. BISHOP: Pull your mic a little bit closer if you would, please.

MR. BURNS: Oh, sorry. Thank you for the opportunity to testify on behalf of the PeopleforBikes coalition and the Bicycle Products Suppliers Association.

Both of these organizations are a 501(C)(6) industry association which represent the American manufacturers and suppliers of bicycles, parts, accessories and services. The U.S. Bicycle Industry is concerned about the proposed 25 percent tariff on the import of electric assist bicycles and motors from China.

Electric assist bicycles are hybrid human and electric powered bicycles that come equip with small electric motors to enhance the pedal power of the rider. They are growing rapidly in population as many American bike riders age and people seek new ways to commute and recreate.

As the bicycle becomes a more integral part or component of the transportation system in the United States, e-bikes are also beginning to appear in our public bicycle sharing systems.

For the past 23 years I have been the vice president and general counsel of Trek Bicycle Corporation. Trek currently holds board seats on both PeopleforBikes and the Bicycle Product Suppliers Association. But I am also the president of BCycle, one of the country's largest bike sharing providers. BCycle is in 50 cities.

For over 40 years, Trek has been designing, engineering, manufacturing and selling bicycles in the United States. Trek began in 1976 literally with two men working in a barn in Waterloo, Wisconsin and today has grown to a company that employs more than 2,600 people who manufacture and sell our products worldwide.

Today, Trek makes its bicycles in Asia, Europe and the United States. We continue to manufacture high end products such as complete bicycles and frames in our factory in Waterloo, Wisconsin. However, like all bicycle companies, Trek utilizes and depends on a global supply chain.

Annually, the U.S. bicycle industry generates an $88 billion economic footprint that supplies 768,663 American jobs in engineering, marketing, research development, management, service and sales. Our products are sold at 16,000 retailers across the United States.

While these retailers are predominately small, mom and pop local businesses, they still depend on a global network of manufacturers and suppliers to service their communities and to support local employment.

Electric assist bicycles are increasingly a critical component of these sales, helping to bolster the number of jobs and retailers in our industry.

Since 2002, sales of electric assist

bicycles have grown dramatically in the United States, reflecting changes in our customers preferences. This category has seen 75 percent year over year annual growth in the independent bicycle dealer market segment.

In fact, electric assist bicycles account for nine -- accounted for 9.8 percent of U.S. wholesale bike sales in the first quarter of 2018. This is up from 5.5 percent of the total market sales in the first quarter of last year.

These sales mirrored the growth of e-bike market between 2016 and 2017, when sales increased by 92 percent. Across the United States there are hundreds of companies that engineer, design, market or sale electric assist bicycles and their components.

We anticipate more companies will introduce electric assist bicycles to the market in coming years. Each of these companies is concerned the proposed tariffs will seriously undermine this increasingly important segment of the U.S. bicycle industry.

In the bike industry, our products are not typically imported under Section Heading 8711 of the Harmonized Tariff Schedule, which generally applies to motorcycles and mopeds. However, due to their small electric motor, electric assist bicycles are classified and imported under our harmonized tariff schedules 8711.60 and 8711.90.11. A company that wants to import just the motor does so under tariff 8501.31.40, which also has a proposed 25 percent tariff.

These HDS classifications are broad in scope and apply to a wide variety of electrically powered and motorized motorcycles, mopeds, scooters and other types of cycles or their motors. Imports under these classifications have grown rapidly in recent years, as Americans seek innovative, quiet and low impact solutions to their mobility needs.

In today's market place, sales of electric assist bicycles are critical to maintaining a health domestic bicycle industry and to generating jobs in the United States. These bicycles have helped offset the clients to other categories such as road bikes, and they are helping to ensure that retail and service shops operate a profitable business.

But this is not just about the sale of the bike. Electric assist bicycle customers also support our industries through their purchase of other products, such as helmets, locks, components, apparel, accessory and service. Therefore, the loss of an e-bike sale also has significant downstream negative impact on our industry's bottom line.

The bicycle industry cannot absorb a 25 percent tariff without significant price increases that would be borne by the American customers. Thank you very much.

MR. BISHOP: Thank you, Mr. Burns. Our next witness is Donald DiCostanzo with Pedego, Incorporated. Mr. DiCostanzo, you have five minutes.

MR. DICOSTANZO: Thank you. And you've pronounced my name correctly. Good morning, my name is --

MR. BISHOP: Thank you.

(Laughter)

MR. DICOSTANZO: Good morning, my name is Don DiCostanzo and I'm the CEO and cofounder of Pedego, Inc. Also known as Pedego Electric Bikes, a California based company.

We are proud to be the leading brand of electric bikes in America. I am here today on behalf of Pedego and its employees to urge the administration to exclude tariff heading 8711.60.00, which covers electric bikes.

Alternatively, we ask that the administration specifically exempt Pedego Electric Bikes classified in this heading from the proposed 25 percent duties. Pedego asks for this exclusion because there is a lack of availability in the United States.

Imposition of a 25 percent duty would cause severe economic harm to Pedego's U.S. operations and to the U.S. electric bike market. Moreover, keeping electric bikes on the list will not contribute to the Section 301 goal of eliminating China's unfair IP policies and practices.

First, with respect to the availability of the product at issue, Pedego's businesses rely on imports because no companies manufacture electric bikes in the United States. Pedego does not have the option to effectively build its electric bikes in the United States because virtually all the components used on bicycles are unavailable or in short supply in our country.

While there are a couple of other countries that can build electric bicycles, they would still have to source components from China, and the capacity is limited in these other countries with whatever capacity is available. And whatever capacity is available would be swallowed up by the advent of a tariff in Europe, which is 86.3 percent proposed in Europe.

Second, imposition of an additional 25 percent duties on electric bicycles would substantially harm Pedego's business. Today, Pedego has 85 branded stores throughout the United States. We have 55 employees who engage in product design and engineering, marketing and sales. We also conduct some final bike assembly in the U.S.

An additional tariff would impede the growth of an emerging industry in our country and put Pedego in a competitive disadvantage. Industry statistics indicate that the market is growing by at least 50 percent per year. The only beneficiaries of these tariffs would be Pedego's non U.S.-based competitors.

Their electric bicycles will not be subject to the Section 301 tariffs because their country of origin is not China. In fact, they can and will continue to support parts and components from China to use in their own bicycle, with absolutely no impact from the Section 301 tariffs.

The only ones who will pay the price are U.S. based companies like Pedego. Its workers and countless downstream companies and consumers who rely on our products.

Tariffs on electric bicycles from China

would be a classic case of the unintended consequence of being detrimental to us on other U.S. based companies, to the advantage of foreign owned companies.

Third, electric bikes will not contribute to the objectives of the Section 301 action. We design all of our bikes in California. The production of our bikes and their components in China does not involve any industrially significant technology, intellectual property or innovation.

Moreover, we are not aware of any specific reference to electric bikes in the Made in China 2025 plans and that the Section 301 action intends to address.

Finally, the total value of our electric bikes imported from China is considerably small, estimated $150 million in 2017, such that removing the product would have a minimal impact on the administrations $16 billion target.

Last, but not least, electric bikes offer a green form of transportation, encourage a healthier lifestyle. They are increasingly catching on with U.S. consumers and getting more people off roads and exercising while lowering emissions. Our government should promote electric mobility and foster this industry, not restrict its growth. Therefore, excluding electric bikes from this list will not undermine the objectives of the Section 301 action.

For these reasons, Pedego requests that subheading 8711.60.00 be excluded from any Section 301 measures. Alternatively, Pedego requests that the electric bikes imported by Pedego be exempted from any Section 301 duties. Thank you for your time and I'm available to answer any questions.

MR. BISHOP: Thank you, Mr. DiCostanzo. Our next witness is Diana Dimitriuc Quaia on behalf of Goal Zero, LLC. Ms. Quaia, you have five minutes.

MS. QUAIA: Thank you. Good morning, I am Diana Quaia with the law firm of Arent Fox representing Goal Zero in this proceeding.

Goal Zero is a U.S. company with 77

employees and a track record of innovative off grid power solutions. The company motto is power anything, anywhere. And true to that principle, Goal Zero designs and produces consumer goods that are light, portable and multi-functional, such as flashlights and portable solar panels that are used to charge power packs or small consumer electronics.

Goal Zero imports small panels with a maximum power output of 100 watts from third party suppliers in China under two HTS codes, 8501.31.80 and 8541.40.60.

Yesterday you have heard testimonies from companies in the solar industry. Unlike most solar companies, Goal Zero sells consumer products. Our products are designed for portability. They are used off grid for recreational purposes, for emergency situations or to bring power in remote locations where there is no access to the grid.

For example, Goal Zero has sent millions of dollars of product to hurricane ravished areas like Texas, Florida and Puerto Rico last year.

We have a sample product here today. This is the Nomad 7 solar panel and it is made of two small panels that are encased in a plastic foldable case. It has a power output of seven watts and it's used to power something like a camera or a cell phone or a tablet.

There are good reasons why the Committee should exclude these two HTS codes from the list. First, these small panels are not available from domestic producers. Goal Zero's production depends on small panels from China that are further processed to meet the size, voltage illumination requirements of consumer goods. Traditional panels are produced in high volume on automated lines.

In contrast, our panels require significant transformation. Each cell must be cut into several pieces, wired and laminated to produce the combination of voltage and wattage required for portable applications.

It is fair to say that we are taking

a monocrystalline solar cell, we are cutting it and rebuilding it into a small panel for portable applications. This processing takes time, experience and specialized equipment.

We know of no U.S. or third country producer, supplier, outside of China that are willing to produce these small panels. Therefore imports -- our imports from China are not displacing U.S. production and additional tariffs would not benefit the U.S. solar industry in anyway.

Second, no U.S. producer of solar panel has requested that HTS 8501.31.80 be added to the tariff list. Imports under this HTS code have been linked to no policies of China that are detrimental to U.S. interests.

With respect to imports under HTS 8541.40.60, we understand that one U.S. producer has alleged harm due to Chinese imports of solar products based on a particular technology. The PERC technology, P-E-R-C.

The small panels imported by Goal Zero do not utilize this technology. And more to the point, our small off grid panels do not compete with any panels produced in the United States.

Third, solar panels are already subject to multiple remedies, including ADCBD duty and safeguard duties. In the safeguard proceeding, our off grid small panels were excluded from the remedies, but a new remedy under section 301 would put us back in a position when we were to face disproportionate harm.

Because our panels are heavily customized, we have no choice but to import from China. A 25 percent tariff on our small panels will increase our cost, reduce demand and threaten jobs.

Because our off grid panels represent the very small niche of the solar market, the additional 25 percent duties will be ineffective in eliminating China's practices that are covered by this investigation.

In closing, I would like to add that if the USTR would like -- will include these tariff goods in the Section 301 list, our small panels should be excluded.

In the safeguard investigation concluded in February this year, off grid and portable small panels of 100 watts or less were excluded from the remedies directly as part of the presidential proclamation. Therefore, the USTR has already recognized the lack of U.S. supply of these small panels and the disproportionate harm that a tariff increase would have on Goal Zero's business.

On behalf of Goal Zero and its employees, thank you for the opportunity to explain our position, and we respectfully ask that you do not include our product in the Section 301 tariff list. Thank you.

MR. BISHOP: Thank you, Ms. Quaia. Our next witness is Ryan Lin with Lin Engineering Incorporated. Mr. Lin, you have five minutes.

MR. LIN: Now it's on, great. Should I wait for you to start?

(Off-mic comments)

MR. LIN: Okay. Good morning. Good

morning, Mr. Chairman and good morning Members of the 301 Committee.

My name is Ryan Lin, I was born in DeKalb, Illinois and my father started a business 30 years ago that I currently operate. The company name is Lin Engineering and we manufacture stepper motors. I am the executive vice president of the company.

We have 120 employees and our facility is in Morgan Hill, California. The engineers and skilled factor workers are the complement of these. They have been employed by our business -- in our business for approximately ten years.

Did you know that it takes a long time to building a motor company in the United States or anywhere in the world? I did some math and it took about, just under eight presidential elections to build our business to $30 million. It takes a very, very long time for product development and market acceptance and then customer acceptance. And then growing that from there.

So, here are some basic low tech

components. This is a stater. It's a laminated steel stater with a plastic insulator made out of nylon. This is the stationary part of the motor, that's why it's called a stater. This is the rotating part of the motor which is called the -- which is made out of the laminated steel and magnets. We further assemble these into the rotating part of the motor.

So, the 120 employees basically machine and wind copper around these parts and then pull them up into precision motors. There's machining, calculations, design work, subassembly, final assembly and tests. We do this through U.S. labor and U.S. wages.

So, our industries that we serve are medical device industries, automotive industries as well as general automation. The key to our success is really in how we put these components together for a precision, requirements for our customer's needs. And the components that we use are currently tooled in China. And there are no U.S. sources and there hasn't been any for years.

The tooling, the cost to retool these in other countries would be significant, and many of our medical device companies would have to go through expensive and rigorous qualification processes.

We are also one of the last remaining stepper motor companies in the United States, so on U.S. soil. We recently expanded our operations to 40,000 square foot. And this would double our production size within the next five to ten years.

And I also wonder how many other established motor manufacturing companies are looking to double their manufacturing over the next five to ten years.

Most of our -- most of the suppliers for these products, our competitors, simply import finished product and they don't do any manufacturing in the United States. Nor do they employ the headcount that we do. So, we have 120 employees and the families behind them that rely on these jobs for their livelihood.

Having the tariffs on these codes would

have a significant impact on their growth path and would potentially lead to a 40 percent loss in our top plan revenue. Sadly, those would result in a loss of jobs at our company and we would be unable to expand the workforce as we are planning.

As I mentioned, the components are fairly low tech. Our Chinese suppliers do not need United States IP to produce these items and for this reason, I'm humbly requesting that the following tariff codes be removed from the list too. Subheadings 503.00.95, 501.10.20, 501.10.60, 5010.31.40.

Thank you for allowing me to present our case today, God bless America and I look forward to any questions you may have.

MR. BISHOP: Thank you, Mr. Lin. Our next witness is Dr. Aaron Padilla with the American Petroleum Institute. Dr. Padilla, you have five minutes.

DR. PADILLA: Members of the Section 301 Committee, thank you for the opportunity to speak with you. My name is Dr. Aaron Padilla and

I am senior advisory for International Policy at the American Petroleum Institute, API.

API is the only national trade association representing all facets of the natural gas and oil industry. Our nearly 620 members include large integrated companies as well exploration and production, refining, marketing, pipeline and marine businesses, and oil field equipment manufacturers, service and supply companies.

Further, the natural gas and oil industry supports 10.3 million American jobs. Unfortunately, the administration's tariffs on steel and other imported goods stand in the way of increased job creation and economic growth. Section 301 tariffs are already effecting approximately 100 products, including pumps, pump parts, motors, rotor staters, valves, fluids, drill collars and lithium batteries that are already hurting the natural gas and oil industry.

We expect that USTR will grant waivers upon receiving petitions for exclusions for these products. Expanding the current list of 301 tariffs will cause disproportionate economic harm to the U.S. natural gas and oil industry.

As it would not be possible to relocate quickly, the sourcing of the following products and still meet the industries exacting product reliability specifications and standards. Steam turbines not used for marine propulsion, bearing housings, plain shaft bearings, motors, power connectors and cables, electronic integrated circuits and other components, meters for gas, liquid and electricity supply and steel used for grading for structures or parts of structures. The specific HTS codes are included in my written testimony and a copy of my oral testimony that you should have.

Our industry relies on these components for the manufacturing of oil field equipment here in the U.S. that is either deployed in domestic oil and natural gas production or exported to the global market.

Our industry will be further harmed by

China's retaliatory tariffs placed on U.S. exports, including announced tariffs on U.S. crude oil and refine products that China has stated its intent to levy. China receives about 20 percent of total U.S. crude exports but can easily turn to other countries. Quite possibly U.S. advisories like Iran and Russia to meet their needs.

The U.S. seems to be departing from a path of free trade to a system that is one of managed trade where every aspect of the U.S. trade and investment relationship is up for negotiation on a bilateral basis.

The lack of transparency in this policy making process and the lack of adequate consultation to determine the potential impact on U.S. investment, jobs and consumers, is especially troubling.

The president has already signaled what is next for the Section 301 policy making, which is levying U.S. tariffs that will tax the entirety of U.S. imports from China. This will then trigger retaliation that will harm all U.S. exports to

China, including energy and U.S. energy investments in China. U.S. consumers and American workers could ultimately bear the burden of these tariffs.

We strongly believe that any Section 301 effort to address discriminatory and market sorting practices of China be undertaken only after a consultative approach at home coupled with a multilateral approach abroad.

We urge the administration to do the following. One, define precisely the negotiating objectives, vice via China, that relate to energy. In direct dialogue with the U.S. natural gas and oil industry, this will maximize the potential for any energy provisions that, in an negotiated settlement, that would represent substantive terms that would actually advance U.S. interests beyond what can be reasonably expect to occur per the status quo.

Two, reach an agreement with as many countries as possible, as soon as possible, to extend country exemptions for Section 232 import restrictions. Both tariffs and quotas on steel and aluminum based primarily on other countries willingness to work in concert with the U.S., to address China's discriminatory practices.

And, three, work multilaterally with U.S. trade partners that are allied with U.S. interests, vis-a-vis China, to achieve solutions through and within the WTO and the rules based global system.

We share the administration's own goal of promoting American energy dominance, but it has become clear that tariffs and restrictions on imported steel and other products undermines domestic energy production. Further, increasing the costs of American energy production will hurt America's national security and American consumers who have benefitted from affordable energy.

We hope that the administration will reconsider these tariffs that will, without a doubt, harm our nation's energy interests at home and abroad. Thank you for the opportunity to provide this testimony today on behalf of API member companies.

MR. BISHOP: Thank you, Dr. Padilla. Our final witness on this panel is James Silver with the international tank container organization. Mr. Silver, you have five minutes.

MR. SILIVER: Good morning and thank you for the opportunity to testify today. My name is James Silver and I am a member of and appearing on behalf of the International Tank Container Organization, otherwise known as ITCO.

With 160 members worldwide, ITCO membership is open to tank container owners, operators, shippers, manufacturers, repair shops, service providers and inspection companies. Seventy-five percent of ITCO's members have operational entities in the U.S. and its members control approximately 77 percent of the current global fleet of over half a million tank containers with a market value in excess of $6 billion.

ITCO members' portable tanks, intermodal tanks and IMO tanks all fall under Subheading 8609.00.00. And as such, ITCO respectfully requests removal of said line item from the proposed 25 tariff under Annex C.

Tank containers are a reusable stainless steel pressure vessels with life spans of up to 25 years. The tanks are designed to carry hazardous liquid cargos and domestic and international service with quick interchange between ship, truck and rail.

In my written testimony submitted on the 23rd of this week, I described for the Commission how the tank container is similar to the 53 foot freight container some of the subsequent speakers in Panel 10 will describe.

The similarities are important because a thorough investigation was made by this commission in 2015 of the 53 foot container where it was determined that the establishment of an industry in the U.S. was not material retarded by reason of imports of China as well as proving that there was no established production in the USA.

Similar to the 53 foot unit in the study, the tank container has an established industry workhorse, the T-11 tank, which makes up approximately 90 percent of the existing global tank container fleet. The T-11 is identical to the 53 foot container in terms of market development and production, where historically, only two American producers built any known quantity of tanks and both ceased production more than 20 years ago.

At their combined peak of production, the American manufacturers could produce no more than 600 tanks per year or less than one and one half percent of the global demand. Currently, over 44,500 tanks are produced annually with 80 percent built in China, 14 percent in South Africa and the balance are made in Europe.

The tank costs has been relatively stable due to continued overcapacity and factor growth in china where production capacity has increased by another 50 percent this year alone.

The tank cost of goods sold is roughly 85 percent material and 15 percent labor. This cost breakdown ensures that the tanks now and in the forcible future will continue to be built outside the USA and not China or other developing nations with low labor rates or in countries with long-term currency devaluation.

With labor rates responsible for only 15 percent of the tank costs, the potential for an American manufacturing base is eliminated.

Typical to the 53 foot dry freight container in the study, the demand side of factory production is limited to a small number of buyers consisting of tank owners, operators and shippers.

On the tank owner or leasing side, ten firms purchased the majority of the annual production and currently control 42 percent of the total global fleet. All ten are ITCO members and 90 percent maintain offices and staff in the U.S.

The top ten operators buy a percentage of their fleet and lease the remaining tanks from the owners releasing companies. The top ten operators currently own over 34 percent of the entire global fleet. Eighty percent of the top ten operators are ITCO members and maintain offices and staff in the U.S.

Most, but not all of the top ten owners and operators, are multinational companies. If tariffs are placed on the containers, only the smaller domestic-based owners and operators would disproportionately suffer.

The domestic only U.S. based owner and operator would either buy fewer tanks hurting their supply chain of truckers, shippers, maintenance shops and inspection companies due to lower volume or the increased costs of the container would be factored into the cost of transported goods and would be passed along to the consumer.

Since the tanks are instruments of international traffic, the multinational tank owners and operators will continue to operate their tariffs -- sorry, their tanks tariff-free in direct competition with the domestic American company, the only tariff paying tank purchaser, much to their disproportionate determinant.

I ask the community members to please read ITCOs full written comments as well as the 53 foot dry freight container study, Publication

4537 from June of 2015, as this will show sufficient and ample reason why the container is listed under subheading 8606.00.00, should be removed from the proposed tariff list. Thank you for your time and your consideration.

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

CHAIR BUSIS: Thank you. If we can just have a 30 second consultation and we'll proceed with questions.

(Pause)

MR. BOBSEINE: My question is for Catherine Boland. In your statement you highlight two examples where suppliers will be unable to pass on increased costs to customers. Are there viable alternatives for domestic purchasers of these supplies?

MS. BOLAND: At this time, no, because the markets are already tight and in some cases this product, there's not sufficient capacity available for the products my members import. It would take many years for that to be available.

MS. HENNINGER: Hello, I have a question for Mr. Burns. In your written statement you say that virtually 100 percent of the electric assist bicycles sold in the United States are manufactured overseas.

Can you explain why that's the case and if the tariff is in place would you expect production to move to the United States?

MR. BURNS: I would not expect production to move to the United States. You know, when I began in the bicycle business in 1995 there was still fairly significant domestic production of bicycles in the United States.

Today there are about 17 million units sold in the United States and only about 200,000 bicycles are actually manufactured in the United States. And the reason for that is because the supply chain has moved with production.

So, over the last 20 years the supply chain of components has left the United States. And it would take a significant amount of time to bring that supply chain back if production were to come back.

MS. ZUCKERMAN: Hi, this question is for Mr. DiCostanzo. In your statement you explain that to produce your electric bicycles in other countries would be difficult as some components would still need to be sourced in China. And you further highlight your concerns with such sourcing given a tariff in Europe. Or a proposed tariff.

Would some of your concerns be addressed if you shifted production not from China to Europe, but to another region of the world?

MR. DICOSTANZO: It's certainly a practical solution to move other areas of the world. We have the same challenges that many of the other people testified too. It would take a significant amount of time to do that. It couldn't be accomplished in a matter of months, it would take a matter of years. Mainly because the supply chain.

You know, when I started Pedego a little over ten years ago, my vision was to build our bikes here in the U.S. I had this grand vision that we could make them here.

And I talked to the first -- I went to a show to find out where I could get the frames made and they laughed at me. And I said, well, what do you mean. He said, well, the biggest frame production facility in the U.S. can only build 400 frames a year for the whole entire industry.

We can't buy so much as a spoke that was made in this company. The production over 23 years has moved away from the U.S. Mostly to China.

And over 90 percent of the electric bikes sold in the world now are sold in China -- I'm sorry, are made in China. Another seven percent are made in Taiwan and three percent are made in Vietnam. That's it.

There is new production beginning in Europe and it's possible we could begin production in Europe, but we'll be competing against our European competitors who are invading our soil here and have taken a significant part of the bike market away from us.

So, as an unintended consequences, companies like Pedego could go out of business because of the European competitors who can build the bikes in eastern European can bring them in here duty-free and compete against somebody like me who has to pay a tariff on it.

CHAIR BUSIS: A question for Mr. DiCostanzo, and I also, Mr. Burns may want to address this. I just want to clarify something, Mr. DiCostanzo.

Your testimony said that the production of bikes does not involve any industry significant technology or intellectual property, but at the same time you have a design staff in American, which presumably does great work with intellectual -- with design in which, in a sense, is intellectual property.

So, I take it you mean that you don't feel that the production, using your intellectual property in China, it doesn't transfer, is that the point you're making?

MR. DICOSTANZO: Yes, that's correct.

So, when we say design, we don't mean electrically designed we mean aesthetically designed.

So, think more like clothing. There's virtually no patents on electric bicycles so there is no intellectual property.

A bicycle is just a subtotal of components, there is about 50 items on a bill of materials. Everything from the spoke all the way to the seat and the handlebars. All of which are being made in China.

CHAIR BUSIS: So what is the, U.S. design is more like a piece of clothing, that kind of thing?

MR. DICOSTANZO: Yes, style, color.

CHAIR BUSIS: Right. And are you worried about that being transferred while it's in China?

MR. DICOSTANZO: Not at all.

CHAIR BUSIS: Okay. Mr. Burns, can you address, because you have the similar mode of production.

MR. BURNS: I would say that the

intellectual property concerns in the bicycle area, tend to be in higher levels of technology than are exhibited in electric assist products.

So, carbon fiber frame production, for example, is an area of some concern regarding intellectual property to my employer and in the bicycle industry generally.

However, the intellectual property that is incorporated into electric assist bicycles, which are the subject of today's hearing, there is no significant concern of that intellectual property being stolen.

MS. ROY: This question is for Mr. Harmon. In your statement you state that you have no choice but to import your solar panels from China because the panels are highly customized. Can you further elaborate as to what your company would need to undergo in order to source your solar panels from a country other than China?

MS. QUAIA: Good morning. On behalf of Goal Zero, I'm Diana Quaia with Arent Fox for Mr. Harmon.

MS. ROY: Sorry.

MS. QUAIA: No problem. So, China, our current, Goal Zero's current suppliers in China are the only option at the time because there are no other suppliers in the United States or in third countries that are interested in this market. This is a very small production. It's a small niche.

Most solar companies are interested in high-efficiency, high-power, 60 cells, 72 cell modules that are sold to commercial and utility businesses.

For our business, for example, in a panel like this, one of these two panels is a single six-by-six inch solar cell. So, for a panel producer, a solar cell producer to make our product, they would have to invest in additional equipment, dedicate additional time and labor resources to cut the cells, rewire, re-laminate them. There's simply just no interest, that has been the companies experience.

MS. ROY: Thank you.

MS. HOWE: My question is for Ryan Lin.

In your statement you state that shifting production from China to another country would not only be costly and time consuming but would also require an approval process for many of your medical device company's customers.

Can you tell us more about that approval process that would be needed to transfer sources?

MR. LIN: Yes. So, some of our customers are under FDA, so they would require extensive qualifications.

So we would have to first -- so we would first have to invest approximately $150,000 in tooling. And for each product family there is about 20 different product families and growing.

Then we would have to then provide those samples to the customer so that they're exactly the same and then those customers would then go through FDA re-qualification.

During that re-qualification they would open the door for second sources or third sources to qualify against us. And that just opens up more.

We've tried to re-qualify certain sources due to quality and change production facilities from customers who are in medical space. And of all the proposals that we have asked for they said, no, you can't do this, the FDA would not allow it.

And so then we were forced to stick with the current supply and source and then mitigate by putting extra quality measures on top of it.

CHAIR BUSIS: Mr. Lin, this is not a follow-up question but a more basic question. But it would be helpful to the Committee if you could explain the difference between a regular motor that continuously spins and a stepper motor.

MR. LIN: Oh, great. So, a regular motor that you might see in a fan on the ceiling in your home or in a fan of a car or a fan on your desk, those are rotating motors that just rotate without any positioning.

A stepper motor is used by a computer or a computer chip that rotates digitally. So, if you asked it to turn 90 degrees, it would move and position 90 degrees precisely.

If you asked a regular motor in your home, a fan motor, you would have to turn on the switch and turn it off and stop it at the right time to hit 90 degrees and it would continue to rotate and it wouldn't stop.

So, the basic function of a stepper motor is positioning control.

CHAIR BUSIS: This question is for Mr. Padilla, the API. You had mentioned that a number of goods used in petroleum production are currently produced in China.

So the question is, is this an issue of existing supply chains or are some of these components something that inherently can only be produced in China, basically forever?

DR. PADILLA: The reliance of the U.S. natural gas and oil industry, on the products that I mentioned, has to do primarily with quality assurance specifications that either the products themselves are qualified to meet per API standards or other industry standards, or that manufacturers or manufacturing facilities are qualified through a certification system to meet.

So, the difficulty for our industry in securing these products in the supply chain from suppliers other than those in China, has to do with the time it would take to have other facilities and companies certified to industry standards in order to meet the precise quality specifications that service and supply companies in our industry have, that the supplier has been trying to currently meet, and that our companies would have difficulty in securing from other sources.

MR. BOBSEINE: This question is for James Silver. In your statement you explain that intermodal tank containers are manufactured in China, South Africa, the UK, and Belgium.

Would it be possible for companies in South Africa, the UK, and Belgium to ramp up manufacturing so that 86 percent of the worldwide supply of intermodal tank containers would no longer need to come from China?

MR. SLIVER: No. The production is

relatively small in Europe in comparison. So the ability, and they're generally built in older factories as well so they would have to start fresh with new ground breaking, licensing, and so it would take a year at least to get something up new and running to get to those production levels.

CHAIR BUSIS: And Mr. Silver, it would help if you clarified something in your testimony. You mentioned that only 15 percent of the tank is labor cost --

MR. SLIVER: Eight-five. Oh, 15 percent. Fifteen.

CHAIR BUSIS: Right. Only that is labor costs, but then you said that means that there could not be U.S. production.

MR. SLIVER: Yes, because the cost of labor is so cheap in the other countries. With the labor being two, three, four times the magnitude of what it would be in the developing countries, the tanks would be terribly noncompetitive if built here.

CHAIR BUSIS: Okay. But even if the

15 percent --

MR. SLIVER: Oh yes, you'd have to put a tariff on it that would be much higher than 25 percent for it to even be in the ballpark. And then the other countries are still going to produce them cheaper.

CHAIR BUSIS: Mr. Bishop, we're going to release this panel, and before we do I would like to note for the hearing room that the second panel will be chaired by Megan Grimball of the Office of General Counsel of USTR and third panel will be chaired by Arthur Tsao of the Office of General Counsel of USTR. Thank you.

MR. BISHOP: We release this panel with our thanks and invite the next panel to come forward and to be seated. We also invite our last panel, Panel 11, to come forward and be seated in our witness waiting area.

(Pause)

MR. BISHOP: Will the room come to order. Madam Chairman, our first witness on this panel is Steven Blust, with the Institute of

International Container Lessors, Limited. Mr. Blust, you have five minutes.

MR. BLUST: Thank you. Members of the Section 301 Committee, good morning and thank you for the opportunity to testify today.

My name is Steven Blust and I am president of the Institute of International Container Lessors, the IICL. The IICL is the leading trade association of container lessors and is based in the United States.

Our members lease marine cargo containers to vessel operators and other customers around the world. Today I would like to focus my remarks on marine cargo container which are utilized worldwide in international maritime trade and are classified for customs purposes, often under HTS 8609.

Marine cargo containers are used by cargo interests to move exports and imports in international commerce as instruments of international traffic.

When Marine cargo containers reach an

average age of about 12 years, they are removed from active service and placed in the resale market where containers are sold and often re-purposed by small and medium sized businesses for arrangement purposes, as you will hear today from witnesses with the National Portable Storage Association, Mobile Mini, and Sea Box.

Imposing duties on marine cargo containers would do little, if anything, to address China's unfair acts, polices, and practices nor would these duties have any noticeable impact on China's IP practices.

Indeed, while some U.S. companies import and modify containers, there is essentially no industry in the United States that manufactures containers nor has there been any significant manufacturing presence for the past 40 years.

That means increased duties on marine cargo containers would do nothing to promote U.S. manufacturing of these products. Marine containers have always been manufactured in locations where they can be used immediately without incurring transportation costs, to ship them to another location for cargo pick up which will then be shipped internationally.

This means that containers today are almost exclusively made in China and imposing a tariff simply would not create a container manufacturing industry in the United States nor have any impact on the manufacturing of new containers in China.

Furthermore, both the container manufacturing process and the containers themselves are decidable low tech. These are not semiconductors, they are not communications devices and they are most certainly not drones.

These are steel boxes that have remained quite constant in design and construction for the last 60 years. Marine cargo containers are not relevant to the U.S. leadership and high-tech manufacturing and are not remotely a focus of the Made in China 2025 program.

The materials and processes used to make them are well established and there is zero risk of IP infringement, forced technology transfer, or theft of trade secrets. In other words, imposing duties on marine cargo containers would not achieve any of the objectives of the 301 proceeding.

On the contrary, imposing these duties would have substantial negative effect on U.S. consumers and the general public. If imposed, these duties would apply to marine cargo containers that have been retired from active international service and are available for various purposes within United States.

Including temporary storage for retail outlets, modular housing and storage of personal belongings. Re-purposed marine containers are also used by the U.S. Military and are the life blood of disaster recovery efforts.

But containers are only re-purposed once they have reached their final destinations on the cargos impact, which are often far from coastal ports. Leased containers are accepted for off-hire and resale in particular locations because our members know that the containers can be sold and re-purposed there.

Imposing a 25 percent duty on these containers would make it significantly less likely that the containers could be sold and re-purposed in the heartland of American. Without an assurance that a container could be sold, our members will be less likely to accept containers for off-hire, in resale and U.S. locations.

As a result, it will be more difficult for small businesses that re-purpose containers to secure equipment and costs will rise. Of course, if these costs for small businesses rise, their options will be to suffer the consequence themselves, pass additional costs on to the American consumer or cease operations.

Finally, the companies in the United States that purchase used marine cargo containers often modify and repair them. These are good paying jobs, including welding, metal fabrication and painting.

Tariffs on marine cargo containers that

entered the U.S. under HTS 8609 will put these jobs at risk. For these reasons, we ask that Marine cargo containers entering the U.S. under HTS 8609 be removed from the USTR Annex C list. Thank you and I'd be happy to answer any questions you may have.

MR. BISHOP: Thank you, Mr. Blust. Our next witness is Mark DePasquale with the National Portable Storage Association. Mr. DePasquale, you have five minutes.

MR. DEPASQUALE: Hello. My name is Mark DePasquale and I am the CEO of the National Portable Storage Association, otherwise known as the NPSA.

The NPSA is the country's leading trade association for companies that re-purpose marine cargo containers for use within the domestic markets.

Our members purchase containers that are no longer used for international shipping and modify them for portable storage, offices on construction sites, use during disaster relief efforts, and use by the U.S. military to name just a few examples.

The proposed 25 percent tariff on marine containers classified under 8609 would be devastating to my members and our industry. There is no company in the United States that produces marine cargo containers for the primary use by shipping lines or container leasing companies, the primary owner by far of all containers in the world.

However, it would be wrong for anyone to think that marine containers are not subject to any manufacturing processes here in the United States.

Many of our member companies, such as Sea Box, who is also testifying today, specialize in the design and custom modification of marine containers for use by the U.S. military and many other customers outside of the traditional business of international shipping.

This can only be achieved through hands-on blue collar work. The metal fabricators, welders, and painters employed by our member companies are the ones who give these containers a new lease on life.

The companies that do this work are overwhelmingly mom and pop small businesses that are created to meet the need in local communities all over the country.

For example, one of our newest members is a man in his 40s married with three young children who recently lost his job in the shipping industry.

Knowing that a domestic industry using marine containers was growing at an annual rate of 4 to 5 percent he decided to chase his American dream.

He invested his life savings in a new company providing portable storage to retail companies, hotels, construction companies, and others using marine containers.

His business today is just about a year old and he employs five people, three of which work in his yard fixing holes, welding, and painting containers so they can be leased and sold.

The proposed tariffs on marine

containers take direct aim at these small businesses and at the blue collar workers they employ in communities such as Lakewood, Ohio, Elwood City, Pennsylvania, and Elk Mound, Wisconsin.

NPSA members rely heavily on direct delivery of containers which they then re-purpose. Often the only reason a container is directed to a particular location is because container owners know that it can be sold and re-purposed there.

Imposing duties on marine containers would make these sales significantly less likely as costs for our member companies would greatly increase.

When faced with higher costs our member companies will have only two options, first to cut costs elsewhere, or second to pass the costs on to the consumer. The end result is that either blue-collar jobs will be lost or costs for the ordinary consumer will rise, or both.

Although these additional costs will be impose on middle class small businesses, little, if anything, will be gained in return. While marine containers are imported and modified in the United States in nearly 40 years there has not been an industry that manufactures marine containers from scratch in the United States for the sole purpose of international commerce nor will one suddenly spring up out of nowhere if tariffs are imposed.

For obvious cost reasons marine containers must be made in locations where they can be used immediately with profitable export loads nearby.

The high price of domestic transportation in the United States would not permit a cost-effective way to put marine containers into international service.

So regardless of a tariff containers will be made in China. Imposing tariffs will only hurt the small companies that buy used containers and re-purpose them here in the United States.

Finally, marine containers are low tech products. The administration's goal to lead in high tech manufacturing is admirable and we certainly support it, however, it has nothing to do with marine containers.

To put it bluntly, marine containers are about as low tech as it gets, nor are marine containers a focus of the Made in China 2025 program.

In other words, imposing duties on marine containers would be completely unrelated to the objectives of this proceeding and would have little, if any, effect on China's manufacturing of these products.

Imposing tariffs on marine containers would hurt the very people intended to help, hardworking Americans and small business owners that make up the membership of the NPSA.

Tariffs on containers would not achieve the goals of Section 301 proceeding. We respectfully ask the containers classified under 8609 be removed from Annex C. Thank you.

MR. BISHOP: Thank you, Mr. DePasquale. Our next witness is Ken Delozier with

J.B. Hunt Transport, Incorporated. Mr. Delozier, you have five minutes.

MR. DELOZIER: Good morning. My name is Kent Delozier. I am a Director of Maintenance at J.B. Hunt in Lowell, Arkansas. I have been with the company since 1983. I have been a Director of Maintenance since 2011.

I would like to thank the USTR for providing J.B. Hunt the opportunity to explain why it believes the USTR should remove containers classified under HTSUS Subheading 8609.00.00 from the list of proposed products subject to the 25 percent tariff.

J.B. Hunt believes the 53-foot containers are one of the largest categories of such containers. The 53-foot containers are the workhorse of the American intermodal freight industry.

Fifty-three foot containers are special containers in the form of large, rectangular boxes with standardized dimensions. Fifty-three foot is the longest length allowed by

U.S. States for use on highways and roads.

As a result 53-foot containers are used exclusively in the North American intermodal freight market. These durable welded steel containers are secured to special chassis that are built so they can be transferred easily between different modes of transportation, including trucks, freight trains, and ships, without the need to unpack and reload the cargo from mode to mode.

Reduced cargo handling expedites freight transportation, reduces the risk of loss or damage, and improves security. For USTR's understanding the end of testimony contains pictures of a J.B. Hunt 53-foot container double-stacked on a train.

J.B. is one of the largest U.S. purchases of 53-foot containers. While we source a multitude of transportation products from many sources, including several U.S. producers, we purchase 53-foot containers only from Chinese producers.

To understand why I first want to give

you a little background on J.B. Hunt's experience in the intermodal transportation. From about 1993 through 1998 J.B. Hunt purchased containers that were made of aluminum plate.

The aluminum containers offered the advantages of being lightweight and having larger interior space, but also had significant drawbacks.

First, the aluminum containers used mechanical fasteners that allowed water leaks into the containers. Second, the aluminum containers could not be double-stacked on the train, but rather could only ride as the top container.

During the period of 2000 to 2004 J.B. Hunt shifted from aluminum containers to DuraPlate containers made by Wabash. The DuraPlate containers are made of two thin layers of steel plate bonded in the middle by a plastic core.

The DuraPlate containers were heavy and smaller than aluminum containers but at least the could be double-stacked on the train.

In 2005 we began purchasing containers from Chinese producers. The Chinese producers fully welded their containers which means that mechanical fasteners such as rivets and bolts were no longer needed.

These new steel containers also featured reduced box weight and a wider interior than the DuraPlate containers. The Chinese containers could also be double-stacked on the train.

Unfortunately, U.S. producers failed to innovate to produce a similar 53-foot container and eventually exited the business altogether.

In recent years J.B. Hunt has worked with two U.S. companies in an effort to diversify its 53-foot domestic container sourcing beyond the two existing producers from China.

Nevertheless, as discussed in our detailed and our confidential written comments, neither U.S. producer achieved commercial production for a product that met the expectation of J.B. Hunt and others in the intermodal industry.

Moreover, no third country suppliers exist. That means that J.B. Hunt and, indeed, the entire intermodal industry, will remain dependent on China for the foreseeable future for all of its 53-foot domestic dry containers.

Moreover, if the goal of the tariff is not to significantly impact the U.S. economy and consumers while pressuring China to change its technology transfer and industrial policies I believe that the 53-foot containers are definitely the wrong product at the wrong time.

Almost all U.S. companies that ship from any volume of product, such as retailers and manufacturers, use intermodal transportation. An increase in freight prices caused by these proposed tariffs will reverberate through the U.S. economy and will be felt by manufacturers, retailers, and eventually consumers.

These increased prices will impact U.S. consumers at the time that fuel prices are escalating. Therefore, imposing tariffs on 53-foot domestic containers run contrary to the USTR's goal of maximizing the impact on China while minimizing the impact on the U.S. economy and consumers.

Finally, as detailed in J.B. Hunt's written comments, 53-foot domestic containers are not any of the industries that China is targeting with any of the policies investigated by the USTR, nor is there evidence that the 53-foot domestic container industry has been a target of the trade and investment practice is highlighted in Section 301. Thank you and I would be glad to be asked any questions.

MR. BISHOP: Thank you, Mr. Delozier. Our next witness is Daniel Drella with Schneider National Carriers, Incorporated. Mr. Drella, you have five minutes.

MR. DRELLA: Good morning and thank you 301 Committee members. My name is Daniel Drella. I am here on behalf of Schneider National and its affiliated companies and Service Director of Safety and Training.

Schneider is one of the largest transportation service providers in the country and provides both truckload and intermodal services to many shippers, including Fortune 500 companies and numerous middle market and small businesses.

Among other products Schneider provides for transportation of raw materials on behalf of manufacturers as well as a variety of consumer products, including retail products, food products, paper products, clothing, and other goods that are critical to the U.S. economy.

To provide these services Schneider employs almost 12,000 drivers and owns and operates approximately 11,000 tractors, 20,000 53-foot domestic intermodal containers.

Schneider is providing this testimony to request the exclusion of HTSUS Subheading 8609.00.00 from the imposition of 25 percent Section 301 tariff.

U.S. domestic intermodal container on flatcar transportation refers to the transportation of freight by containers by truck and rail which generally includes three distinct legs, a short truck movement from the shipper to the rail, a lengthy movement of the container by a train, and then a short and final truck movement of the container from the end rail yard to the final destination.

Dry intermodal containers are divided into two key groups, oceangoing international containers in 20, 40, and 45-foot lengths, and domestic containers that are 53-foot long and used for inland intermodal transportation which don't travel back and forth by sea vessel.

Our testimony relates to these 53-foot containers which are vital to the U.S. intermodal transport industry. There are no viable U.S. sustainable domestic manufacturers of 53-foot containers as a result of the imposition of a tariff on 53-foot containers would not achieve the trade representatives stated goals of reducing harm to the U.S. economy and eliminating China's harmful acts, policies and procedures.

In 2014 and '15 at the request of Stoughton Trailers, a then producer of dry containers, the ITC undertook an extensive investigation into whether the establishment of the 53-foot domestic container industry was materially-retarded by reason of import of 53-foot containers from China.

The ITC ultimately and unanimously determined that no such retardation existed and declined to impose any anti-dumping or countervailing duties on 53-foot containers imported from China.

Notably, the ITC indicated that the domestic industry for 53-foot containers, to the extent that it existed at all, would have only been comprised of Stoughton and AICM and Navistar through joint venture with the AICM.

To date AICM and Navistar have not produced a meaningful quantity of 53-foot containers for sale and Stoughton no longer manufacturers containers.

In the fourth quarter of 2017 Schneider issued a request for quote with respect to upcoming purchases. Stoughton and AICM were invited to participate. Stoughton declined to provide any bid and AICM had and currently has no capacity to produce containers.

As a result the ITC's findings were even stronger than they were when they were announced in 2015. There is no viable sustainable source of 53-foot domestic containers.

Therefore, this tariff would cause disproportionate harm, economic harm, to U.S. interests. Purchasers of containers would be forced to pay more for a product which is not available for purchase in the U.S. and no domestic producer would economically benefit from the imposition of such a tariff.

As a result of this tariff container purchasers would have to pass through higher cost to their shipping customers who will in turn pass it through the ultimate consumer.

As a result this tariff will have substantial detrimental economic effect on manufacturers and distributive goods and end consumers alike. To provide context of the impact, according to industry analysts and research about 20,000 53-foot containers are added to the domestic market annually.

Adding for a predictive growth of 7 percent 21,000 53-foot containers will be added in 2018 assuming the average price of $12,000. The imposition of a 25 percent tariff would cost the industry $64 million in additional capital annually and about $370 million in capital over a 5-year period.

All these increased costs in some manner would be passed along to the end consumer further exacerbating economic inflation. Further, these higher costs would harm the many truckers that provide local transportation at either end of the rail move and many of the medium and small businesses that ship goods via intermodal method.

While this increased cost could potentially be justified if there was a domestic industry being harmed by China's practices as stated above, as found by the ITC, there is simply no domestic industry which would benefit.

Further, the government's concerns

regarding improper transfer of technology of China is not implicated in the container industry.

While a significant amount of engineering goes into the production of the containers at their core they are very simply a steel box. The containers are not technology products, are not produced with U.S. trade secrets, rather China has developed a design that has significantly improved alternate designs.

Chinese manufacturers have not exploited American know-how to be in a competitive advantage. As a result the tariff will not eliminate any known bad acts by Chinese manufacturers.

There are advantages of intermodal transport over long haul transportation. Intermodal transport has less impact on the environment, creates fuel efficiencies, reduces the cost of delivering goods, reduces congestion on our roads, and reduces wear and tear on U.S. infrastructure. There are real benefits but an increase in cost would take away those benefits.

In summary, we believe that the 53 containers are exactly the type of products that should not be subject to this 25 percent tariff. These types of tariffs are only available from China. Excuse me, these products are only available from China.

As previously explained the ITC has already made this finding about 53 foot containers. Adding the 25 percent tariff to containers would have a serious negative impact on U.S. interests.

There are no viable U.S manufacturers. There is no evidence of Chinese engagement acts that would trigger the type to be addressed in Section 301.

For all the foregoing reasons Schneider respectfully requests that HTSUS Subheading 8609.00.00 be eliminated from the products to which this 25 percent Section 301 tariff would apply. Thank you.

MR. BISHOP: Thank you, Mr. Drella. Our next witness is Robert Farber with Sea Box, Incorporated. Mr. Farber, you have five minutes.

MR. FARBER: Ladies and gentlemen of the Committee, good morning. I am Robert Farber, Director of Contracts and Counsel for Sea Box, Incorporated.

Thank you very much for permitting me to testify. Sea Box is a United States small business manufacturer and supplier of large steel shipping containers, modified containers, and shelters to the federal government primarily to the Armed Forces under contracts with the Department of Defense.

We employ 240 highly skilled men and women at our four New Jersey manufacturing facilities. Our products are used by U.S. war fighters throughout the world, including the Afghanistan and Iraq war zones. We also provide our products to civilian agencies such as the GSA, the VA, and the FAA.

Sea Box respectfully requests that the Committee delete Subheading 8609 from the final list of products subject to an additional 25 percent tariff.

8609 applies to the containers we import from which we design, modify, manufacture, and furnish end products meeting the government's requirements and applications.

As a small business government contractor we, and many other similarly situated small businesses, would be required to pay substantial additional sums for containers sourced from China.

But this isn't simply a matter of economics. It affects our nation's national security. Our imported containers are building blocks for the items we produce for the DoD.

We modify containers to transport missiles and protect munitions. We make mobile medical hospitals to heal the wounded and mobile machine shops to repair military equipment in the field and we make hygiene facilities to support our troops in expeditionary operations.

We are under subcontract to provide modified containers used to recover, transport, and contain weapons grade enriched plutonium rendering it unavailable to terrorists for making weapons of mass destruction.

For new contracts if the proposed 25 percent tariff applies we would necessarily pass along these added costs to our primary customer, the United States government itself.

The tariff would be collected from us and deposited into the Treasury, after which another government agency with part of its increased price pay us back the same 25 percent with that money extracted right back out of the Treasury. Since at the end of that day that transaction truly benefits no one remove 8609 from the list and eliminate two intermediate offsetting money transfers.

For existing contracts small business government contractors would particularly suffer. Under fixed price contracts, as most are for small businesses, we bear all cost risks, including this unforeseen 25 percent increase.

Small businesses which already have multi-year fixed price government contracts would be unable to recover the additional tariff costs and could potentially lose hundreds of thousands of dollars on just a single contract.

For example, if this tariff is implemented we will lose more than $100,000 on the plutonium contract I mentioned. This could lead some businesses to a workforce reduction and the loss of many American jobs.

U.S. small business government contractors, and, in fact, U.S. government contractors of any size, could lose more contract opportunities to foreign country manufacturers under Trade Agreements Act contract provisions.

Domestic contractors which either manufacture or substantially transform items which began as basic Chinese containers will find their necessarily increased bid prices less competitive against products coming from, for example, Turkey, Estonia, or South Korea.

This could potentially result in a foreign manufacturer winning the contract to the obvious detriment of a U.S. manufacturer. Fewer

American contracts equal fewer American jobs.

And, more importantly, should this 25 percent tariff be imposed the government itself will be significantly and adversely affected. The contracts placed by our military and civilian agencies for the tens of thousands of these containers will increase the price by at least 25 percent.

Government procuring agencies, and particularly military agencies, will still need to satisfy the requirements but will have to do so at significantly higher prices. Some military customers will not be able to provide the items they need because of the unforeseen per unit price increase. The war fighter will suffer.

In summary, if an additional 25 percent tariff is imposed on containers under Subheading 8609 small businesses will win fewer government contracts and will lose significant sums under their existing contracts. This translates to fewer jobs and job losses. Government contractors themselves will ultimately pay the increase on new contracts via higher prices benefitting no one.

Finally, national security will suffer. We urge that the Committee relieve these issues by removing Subheading 8609. Thank you very much for your consideration. I will answer any questions that you have. Thank you.

MR. BISHOP: Thank you, Mr. Farber. Our next witness is Christopher Miner with Mobile Mini, Incorporated. Mr. Miner, you have five minutes.

MR. MINER: Good morning and thank you for the opportunity to testify today. My name is Chris Miner and I am the General Counsel of Mobile Mini. I am here today to request the removal of containers classified under Subheading 8609 from the Annex C list.

As the country's largest provider of portable storage solutions Mobile Mini leases refurbished 20- and 40-foot marine cargo containers, also known as shipping containers, to government agencies, the U.S. military, retailers, construction contractors, and other small businesses in need of extra storage space at their location.

These customers choose steel shipping containers for their increased durability and security. Because 97 percent of all steel shipping containers are manufactured in China obtaining these containers from China is critical to the U.S. portable storage industry.

The imposition of a 25 percent tariff on shipping containers would severely harm our industry, which in turn will harm numerous American small businesses.

Containers should be removed from the Annex C list for three reasons. First, imposing increased duties on containers will have no effect on eliminating China's unfair trade policies.

Second, there are no current or prospective shipping container manufacturers in the U.S. Third, U.S. small businesses and their employees will disproportionately suffer the economic harm from any container tariffs.

The tariffs have been proposed in part

to prevent unfair Chinese actions and practices regarding technology transfer, IP, and innovation.

However, neither shipping containers nor their manufacturing processes involves risks of IP infringement or theft of trade secrets. In fact, containers are built to an international standard so that they are identical and able to be transferred from ship, to train, to truck.

With a basic design and low tech manufacturing process shipping containers do not impact U.S. leadership and high tech manufacturing and, thus, are unrelated to the Administration's goals.

These containers are produced with the primary purpose of shipping goods to the rest of world. Containers are merely a byproduct of Chinese manufacturing.

They are not generally produced for the purpose of being sold into the U.S. Once Chinese goods are transported to the U.S. via these shipping containers the containers are typically offered for sale as a secondary usage as potential portable, storage containers.

The U.S. portable storage businesses purchased used shipping containers at ports and then repair, weld, and modify these used containers for domestic use as there is no comparable shipping container manufacturing industry in the U.S.

As a result, imposing tariffs on the import of these used shipping containers will not protect any U.S. manufacturing, which is the primary purpose of the tariffs.

This isn't a story of a U.S. manufacturing industry that has left the U.S. There have never been U.S. manufacturers who make shipping containers from the ground up. The vast majority of the U.S. portable storage industry consists of small blue-collar businesses with less than 20 employees. These employees typically include truck drivers and welders.

The proposed tariffs on these business's only source of product will add a significant cost burden on and potentially strangle the finances of these small businesses. Imagine running a small business where suddenly your cost of goods goes up 25 percent with no alternative avenue to get product.

As the cost to acquire their primary product rises portable storage companies will have to cut costs by scaling back operations and laying off employees in addition to trying to pass these higher costs on to their American customers. This impact would reduce the competitiveness of the portable storage industry in the U.S. as small businesses struggle with the financial burden of higher costs.

Putting American truck drivers and welders out of work in order to protect an American industry that doesn't exist does not make sense and runs counter to the goal of punishing China for their misdeeds.

At Mobile Mini we employee more than 300 truck drivers and have hundreds of welders and painters, among others, who re-purpose these used containers. As our costs rise due to the proposed tariffs it is these blue-collar workers who may bear the highest risk of layoffs as we are forced to purchase less product for them to refurbish and deliver.

Additionally, the proposed tariffs could have father reaching economic impact as they cause price increases for the U.S. businesses and government agencies who rely on portable storage containers to protect their goods.

Imposing tariffs on shipping containers will certainly not eliminate any of China's unfair practices. Tariffs on shipping containers instead would inherit the growth of the portable storage industry in the United States by disproportionately harming small businesses and potentially eliminating a significant number of U.S. jobs.

For the foregoing reasons Mobile Mini is against the proposed tariffs on marine cargo containers under Section 301 and respectfully request that the Committee remove containers from the Annex C list. We do appreciate the important work that this Committee is performing and thank you for the opportunity to share our views today.

MR. BURCH: Thank you, Mr. Miner. Our next panel witness is Chris Coakley of Foss Maritime Company. Mr. Coakley, you have five minutes.

MR. COAKLEY: Thank you. I am providing this testimony on behalf of Foss Maritime and its wholly owned subsidiary Young Brothers.

Foss Maritime was founded in 1889 in Tacoma, Washington, by Thea Foss, a young Norwegian immigrant and her husband, Andrew. Together they turned one rowboat into what has become a world class fleet. Thea Foss first purchased a used rowboat with plans to rent it out to help with her family's finances. She sold that rowboat at a profit. She used the money to buy several more boats.

She continued buying rowboats while her husband, a carpenter, began building them. Her fleet expanded to include over 200 boats. By 1904 the company owned a shipyard, a 60 passenger oil-powered boat, and a rescue craft.

Foss expanded during World War I and

purchased a Seattle-based tugboat company. In 1987 Foss Maritime was purchased by Saltchuk Resources, a privately owned family investment company.

Saltchuk's primary business line is in marine transportation. Foss Maritime continues to operate independently. It is part of Saltchuk's nationwide network of transportation companies. Together with our sister companies we provide customers a full range of transportation services. Foss operates harbor assist tugboats that bring large oceangoing container ships into ports throughout the west coast.

Foss provides logistics to private customers and supports U.S. government-led disaster recovery efforts, most recently in Puerto Rico. Foss operates two full-service shipyards that perform new construction along with maintenance and repair for private vessels like fishing fleets and public vessels such as ferries.

Young Brothers, Limited is a wholly owned subsidiary of Foss Maritime. Young Brothers is Hawaii's most foremost inter-island freight handling and transportation company serving both individuals and businesses.

The company moves goods by barge among the Hawaiian Islands. Young Brothers is the only regularly scheduled common carrier authorized by the State of Hawaii to transport goods over water from one island to another.

We can handle almost any shipment. Our fleet of seven barges has the combined capacity of over 60,000 tons. Our equipment, including dry and refrigerated containers that are 20 feet and 40 feet long can accommodate a range of capacity requirements. Young Brothers routinely assists the U.S. government in moving military equipment between islands for training exercises. In my testimony references to Foss Maritime will include Young Brothers.

The importance of the affordable services provided by Foss Maritime and Young Brothers to Hawaii, Alaska, and Puerto Rico cannot be underestimated. Communities in these places rely on us to move goods among islands and to remote ports. Moving cargo to remote communities requires expensive assets like ships and containers.

Specifically, the potentially increase in the cost to purchase a marine shipping container will have a direct impact on our companies, these states, and the families and people who rely on the goods that we move.

On behalf of Foss Maritime and Young Brothers we respectfully request that HTS 8609 containers be excluded from the final list of China origin goods for which USTR is proposing to assess an additional 25 percent tariff.

These ocean containers are specifically designed and equipped for carriage by multiple modes of transportation. The imposition of additional tariffs on these containers will not be practical nor effective in obtaining elimination of China's acts, policies, or practices.

We submit that maintaining or imposing

the proposed duties on marine containers will cause disproportionate economic harm to U.S. interests, our company, and small and medium-sized businesses, particularly in the non-contiguous trades.

Foss Maritime is not aware of the Chinese government restricting the manufacture of the containers we use in our business. Foss does not own the plants in China that manufacture these products.

We rely on manufacturers to supply our marine shipping business with the necessary containers to move and transport our goods. We are not aware that the Chinese government employs any tactics to regulate or intervene with our providers in China. These containers are not leading technology, as you have heard. China has not required or pressured users to transfer any technology or intellectual property on the construction of these items.

The Chinese government's acts, policies, and practices did not deprive our Chinese suppliers of the ability to set market-based terms in negotiations relating to technology or licensing.

I see that my time is up so I will simply say the imposition of duties will not change the practices of the Chinese government. Ocean containers are not relevant to the Chinese goals for 2025.

We submit that shipping containers in 8609 be removed from the list of items potentially subject to this additional duty. Thank you.

MR. BURCH: Thank you, Mr. Coakley. Madam Chairman, this concludes this panel's testimonies.

CHAIR GRIMBALL: Thank you, witnesses, for all of your testimony. We're going to have 30 seconds for housekeeping.

Thank you. So members of the panel may direct questions to individuals, but since you are all generally from the same industry, if anyone wants to add on, even though a question is not specifically directed to you, please feel free to interject. Okay?

MS. ROY: This question is directed to Mr. Blust. Can you please explain customs procedures that are utilized for the repurposed marine cargo container. That is, what are all the specific steps that an owner of the container must take in order to lease or sell the container that is in the United States?

MR. BLUST: Thank you. We don't necessarily get involved in all of the processes. I'd be happy to provide more information in the post-hearing, in the full details. But in a nutshell, the containers are in the United States having finished their cargo, they are placed on the market, and they are sold.

And between the seller and the buyer, it's determined who will enter those containers into the commerce of the United States and a domestication process. And they follow the customs procedures on that.

MS. ROY: Okay, thank you. So just to clarify, you're stating that the duty that's going to be assessed on the seller or the buyer, depending on how the contract is drawn.

MR. BLUST: That's correct.

MS. ROY: Okay, thank you.

MS. PETTIS: Good morning, this is a question for Mr. DePasquale. What percentage of the marine cargo containers imported into the United States are exported from China, and what other countries produce marine cargo containers?

Somebody had said that it was like 97%, so I was just curious as to what other countries do make these. And can you source your marine cargo containers from any of those other countries instead?

MR. DePASQUALE: So our members source their equipment from primarily two sources, the shipping companies or the leasing companies. And they primarily own the majority of all equipment in the world.

I've worked for international leasing companies, many of which were US companies, one owned by General Electric, the other by TransAmerica, another one Transocean Container

Leasing. And in my 30-year career, to my knowledge, they've never purchased a container outside of China.

So I've never seen containers for international shipping being produced, at least not in my experience, I've never seen them produced anywhere other than China.

MS. PETTIS: Okay, thank you very much.

MR. BOBSEINE: This question's for Kent Delozier. Can you elaborate on the economic effect of the additional 25% tariff on JB Hunt specifically, and on its customers generally?

MR. DELOZIER: The 25% that'll be added to the purchase cost that we will be burdened with will be pushed down to all the end consumers. Because we're going to take a purchase of the new container, and that's just going to be added and pushed down through all the cargo that we haul, and just put an added burden.

And just, with fuel cost up, driver count being hard to get, the cost of trucks higher, everything else being higher, adding the cost of the container is just going to be pushing down to our cargoes that we deliver to the stores.

MS. PETTIS: This is a question for Mr. Drella. You mentioned that there are currently no domestic sources for the 53-foot containers. But are 20, 40, and 45-foot international containers comparable products to the 53-foot domestic container?

MR. DRELLA: No, they're not, ma'am. The 53-foot container is comparable to the 53-foot highway trailer in terms of cubic capacity. And so as customers are loading, particularly domestic product, moved from California to Chicago, what have you, they will typically load a 53-foot highway trailer, and that is one shipment.

And so the 53-foot domestic container in large part mimics that capacity, and therefore the customer can load the same amount of product inside of that trailer, but then use a short truck haul then put on, we put it on the train and move the majority of miles on the train.

And so customers don't typically use

20, 40, or 45s domestically, with the exception of a very small fraction which have very heavy freight. So if you're moving, you know, let's say steel components, tracks for bulldozers and things like that, where it's very heavy, they're okay with moving them in that because they don't need cubic capacity.

But the majority of our customers, you're moving light products. So let's say it's toilet paper, paper towels, diapers, clothing, whatever the case may be that are, they're very light product. They want to fill up that large cubic space, and that's one shipment and one cost.

And so they're not interested in the small container because it doesn't afford them that cube space that they're looking for.

MS. PETTIS: Thank you.

MR. DePASQUALE: May I add to that? I'd like to add something extra.

MS. PETTIS: Yeah, okay.

MR. DePASQUALE: For the purposes of 8609, I have a different view. Containers are not a product in themselves, they are a piece of equipment used to move cargo. So you can consider, you can say a 53-footer, a 40-footer, a 20-footer, a tank container.

They're not purposely designed for the sale of them themselves. They're actually a piece of equipment used to move cargo. And so for that reason, I would suggest that there is no difference.

CHAIR GRIMBALL: Mr. Miner, go.

MR. MINER: I was just going to note that he's talking about the 53-footers and you asked about 20s and 40s. Twenties and 40s aren't made in the US either. They're made in China.

I mean, our good friends at Sea Box will take Chinese containers and repurpose them and remanufacture them in a way that they're acceptable to the military, but no one takes rolled steel in the US and turns out a 20- or 40-foot container.

CHAIR GRIMBALL: Okay, thank you.

MS. ROY: This question is for Mr. Farber. Can you elaborate on how the imported containers from China fit into your contracts with the US Government? It's a three-part question, so I can continue on, or you want to answer that portion of it?

MR. FARBER: Yes, as I had stated, our containers form the basic structure for a significantly and highly modified end product that the military is using.

One of the items, I'm just going to give you an example of a civilian agency contract, is we have made what is called the deployable air traffic control facility, which is an air traffic control tower made out of containers.

But they're not simply plain containers used to just ship televisions or clothing or any of those other commodities. They're outfitted with special plumbing, heating, ventilation, and air conditioning electrical lines, computer server racks. They don't look really anything inside like a plain, basic container.

And when we assemble those containers and then manufacture a glass observation tower, it becomes a tower that the FAA uses in airports in the United States.

MS. ROY: The next two questions are do you use the Chinese containers as components as they are substantially transformed? It seems like you have transformed the Chinese container. And two, whatever the US has, the government has contracted you to do. So this was for FAA.

The third part of the question is do you supply the imported container directly to the US? Is that prior to the substantial transformation, or is that before? Does your contract, with your contract with the government, are you importing the container, transforming it for their specs, and then transferring that container to the US Government at that time?

MR. FARBER: The government buys shipping containers that are, and we call them boring boxes, they're plain shipping containers with nothing changed, nothing modified. The government buys a substantial number of those.

The government also buys, as I mentioned, highly modified containers that start with the basic structure and then end up being an end product which is really nothing like a plain container but something for a specialized use.

So it's, in answer to your question, Sea Box imports containers from China for both supplied to the government as a shipping container and as a modified end product.

MS. ROY: Just one more question for clarification. So when the government obtains the containers, are they purchasing it themselves, at that time, so the government would incur the 25% or the duties that are incurred by Section 301? Just clarifying.

MR. FARBER: No, Sea Box, being the importer, would have to pay the 25% tariff. And then as I had mentioned, we would necessarily have to include that in our contract price, and then would be recovering the same 25% right back from the military agency that's buying the goods.

MS. ROY: Okay, thank you so much.

CHAIR GRIMBALL: Thank you, I have three questions. One is going to be to Mr. Miner directly, the next to Mr. Coakley, and then a more general question that I would, for interest that I would like to hear from everyone.

So first to Mr. Miner, this is a fairly simple question. You mentioned that 97% of steel shipping containers are manufactured in China, as one of my colleagues said. Is this for the entire HTS 8609 category?

MR. MINER: That's for the, that's worldwide manufacturing.

CHAIR GRIMBALL: Okay.

MR. MINER: And as Mr. DePasquale said, you know, in my 20 years, I've never seen a container hit US shores that was made anywhere except China. So where the other three percent are made, I mean, I've seen stats that they're South Korea or India, but those aren't being shipped to the US, those aren't available for us to purchase here.

CHAIR GRIMBALL: Thank you. And Mr. Coakley, your testimony appears to be a bit different from others in that it seems that your main concern is going to be the downstream effects of tariffs on containers. Can you elaborate in more detail about the economic effect of those tariffs on the cost of shipping in Hawaii?

MR. COAKLEY: Thanks for the question. The Young Brothers, Ltd., as I said, is a publicly regulated barge utility line. So the prices are set by the Public Utility Commission in Hawaii. So as the price of containers goes up and we purchase them to recapitalize our fleet, the company itself must absorb those costs.

And yet, the ultimate cost to our company is significantly higher. With respect to places like Alaska and Puerto Rico, where we ship goods using marine containers, the price gets passed on to the small businesses and to, particularly to individuals where they're shipping anything from, you know, an Amazon package to a full refrigerated container.

CHAIR GRIMBALL: Thank you. And now to my general question. I understand that shipping containers are bought, purchased by several industries in the United States. My question is general. One person said that there is a 20-year shelf life or so on these shipping containers.

Is there a further resale market in the United States? So after there's an initial purchase, can that container then be subsequently sold? Is there a market for that? Can that perhaps bridge the gap?

(Off-mic comments)

CHAIR GRIMBALL: So I understand that shipping, let's say for instance a shipping container was sold to Company X. That company used that shipping container. Is there a market where Company X can then sell in the United States to Company Y?

MR. DePASQUALE: So our members are the initial buyers of the containers from the steamship lines, or not steamship lines, the shipping companies. Steamship line is an old term. Or the leasing companies.

And so someone along the line, the importer of record, has to incur that cost of 25%. Whether the initial buyer does it or someone else further down the line does it, ultimately, those containers, from a domestic standpoint, are used in the domestic market for construction companies, retailers, government entities, military services.

So someone is going to incur that cost. And if they can't incur the cost because the product becomes unavailable or more competitive, then ultimately someone's going to be losing their jobs or businesses are going to go out of business.

CHAIR GRIMBALL: So are there already shipping containers in the US market that could be used that would not be affected by the tariff because those containers are already in the market?

MR. DePASQUALE: Correct, but our industry is growing at four to five percent annually. We have new businesses forming every day, small companies that are familiar with the domestic industry that take very little investment and are able to employ people for welding and repairing containers.

I think it's important to know as well that the revenue that a 12-year-old container can earn in the domestic market is absolutely the same as a brand-new container. So it makes no sense, even if a manufacturer was in the United States, it would make zero sense for someone to buy a new container and pay three times the cost when they can earn the same revenue on a 12-year-old unit.

Additionally, there are companies like Mobile Mini that depreciate their product over 30 years. So in the domestic forum, with US workers to maintain that equipment, a single container that was purchased for half the price of a new container can last for 30 years in the domestic business.

MR. MINER: So to your question I would say two things. One is if, so we purchase a lot of containers at the ports, and your question is could I go to some random holder of containers in Albuquerque and say let me buy yours, they already came into the country before the pretariffs.

Well, one is they're probably not going to sell them because most of us are running at relatively high utilizations with, you know, our containers out on rent. They're just, I don't have extras lying around to sell and most of our competitors don't either, and they're not going to sell.

And then two, markets get efficient, and when the guy in Albuquerque knows that I'm up against a 25% price increase if I buy it from a shipping line, he's going to add it to him. And so it's not going to save us any money, even if they were available to go purchase from folks.

CHAIR GRIMBALL: Thank you. Mr. Drella.

MR. DRELLA: Excuse me. From the perspective of a user of domestic 53-foot containers, we have a lit bit shorter shelf life, 13-15 years roughly, because of the lighter construction. The international containers are built to a heavier specification because of how they're stacked on the ship.

The domestic containers are built lighter, and so they last a little shorter period of time, which means we have to replace them sooner, which means additional cost of bringing in new containers.

There really is no supplier, stored supply, of 53-foot containers in the US. We buy them new and are delivered and go right into service. So there isn't a secondary market from which I can source in the US of surplus containers. They're all owned by either, you know, my competitor at Hunt, Schneider, the railroads, and a few other companies and are all in service.

From a secondary standpoint, so once I'm done with them, generally they go to scrap. But there are costs of transferring them to the scrapping location. There's costs for removing the wooden floor and disposing of that. And so there's a small scrap value to them, but they end up being shredded and recycled, so there isn't really a secondary market for 53s.

CHAIR GRIMBALL: That's it, thank you.

MR. BURCH: Madam Chairman, we release this panel with our thanks.

MR. BURCH: Would the room please come to order. Our first panel witness is Stefan Brodie of Purolite Corporation. Mr. Brodie, you have five minutes.

MR. BRODIE: Good morning, Panel, my name is Steve Brodie, President and CEO of the Purolite Company. I'm not here today to talk about the Purolite Company, but I am here today to talk about the critical unintended consequences of a tariff on ion exchange resin, which could harm the safety of the American public and the safety of American industry.

Purolite is one of only two US producers of ion exchange resin, which is a compound made of polymers of styrene and functionalized with the means that is used to purify drinking water, remove contaminants from waste water, supply nuclear power plants with adsorbents to remove radioactive nuclides in their waste stream, supply sweeteners, sugar, and food industries with products for chromatographic separation, and produce decolorization and purification chemicals that are used in various industries.

We employ approximately 300 people

across the country, including 175 people at our production facility in Philadelphia, 50 people at our headquarters in Bala Cynwyd, Pennsylvania.

Additionally, due to the increased demand for ion exchange resin in the United States, particularly after the recent water crisis in Flint, Michigan, Purolite also imports ion exchange resin from its manufacturing facilities located in China, Romania, and the United Kingdom.

Currently, there is an acute shortage of ion exchange resins globally as a result of recent plant closures in China, Germany, and Italy due to environmental restrictions. These plant closures have pushed global production to its maximum capacity, causing six month to one year lead times, and several recent price increases.

Purolite does not expect the supply situation to change in the near future because the plant closures are permanent and the limited number of remaining suppliers, including Purolite and Dow-DuPont, cannot make up the shortfall with increased production.

Moreover, new sources of supply are not expected to be available any time soon, as it takes tens of millions of dollars and many years to permit and build a new factory and qualify its output.

This is certainly true in the United States, where it takes over $150 million to build a plant, and three to four years including the time it takes to obtain the required EPA approvals to build the plant. Therefore, it is extremely unlikely that the United States will add any new production capacity over the next several years.

As explained above, the proposed tariffs on ion exchange resin and its constituent polymers would be very effective at inflicting tremendous damage on communities and manufacturers in the United States. Conversely, these tariffs would be completely ineffective at eliminating China's acts, policies, and practices related to technology transfer, intellectual property, and innovation.

Given that Purolite and Dow-DuPont are at maximum capacity with six to twelve months' lead time and there are no other domestic manufacturers, the biggest benefactors of additional tariffs on ion exchange resin and constituent polymers would be Purolite's international competitors, including Lanxess in Germany, Mitsubishi Chemical in Japan, several small Indian suppliers, which would also be able to charge higher prices in the United States, with in many cases inferior products.

By further reducing the supply of these products in the United States, the proposed tariffs threaten higher prices for US consumers and a higher level of contaminants in American drinking water, food chain, waste water, and chemicals.

Most critically, further shortages in the United States mean that drinking water contaminants like per- and polyfluoroalkyl substances, nitrates, perchlorates, and arsenic may not be treated economically, resulting in either severe rate increases for consumers, or worse, contamination events similar to Flint.

As proposed in the letters of support attached to these written comments, municipalities and water treatment system manufacturers across the United States agree that with ion exchange resins to remove contaminants, EPA-compliant potable water could no longer be provided in a cost-effective manner.

According to these municipalities and manufacturers, there are two possible outcomes of the proposed tariffs for American municipalities. Either the water will be less safe to drink and the waste water will have more unwanted contaminants, and industry will be less likely to be able to comply with EPA environmental standards.

The ion exchange resin industry, which has worldwide gross sales of only slightly over a billion dollars and imports from China significantly less that $100 million, this has never been the focus of the Chinese Government's drive to target strategic advanced technology or manufacturing industries.

Accordingly, the USTR should not aim to eliminate China's acts, policies, and practices related to technology transfer, intellectual property, and innovation by punishing the ion exchange industry. That path is simply a tax on clean water and EPA compliance by industry.

Therefore, it is critical that you remove the tariff subheadings contained in ion exchange resin and polymers from the list as contained in Annex C of the USTR's request for comments. Thank you.

MR. BURCH: Thank you, Mr. Brodie. Our next panel witness is Ed Brzytwa of American Chemistry Council. Mr. Brzytwa, you have five minutes.

MR. BRZYTWA: Good morning. The American Chemistry Council appreciates the opportunity to testify on the Administration's proposed trade action against the People's Republic of China under Section 301 of the Trade Act of 1974.

On behalf of chemical manufacturers producing goods in the United States, we respectfully request that the Administration remove all the chemicals and plastics products from US List 2, which includes a significant number of products in HTS Chapter 39, three tariff lines in Chapter 27, three in Chapter 34, and two in Chapter 38.

We are making this request for two important reasons. First, the inclusion of chemicals and plastics on List 2 has the potential to harm America's manufacturing renaissance and is counterproductive to US economic interests. The tariffs on $2.2 billion in imports of chemicals and plastics from China will undermine the US chemical industry's ability to do business in the United States.

It will put at risk nearly half of the $194 billion in announced investments in chemicals manufacturing that had been announced over the past decade. Costs in the US will go up, not just for our member companies, but the downstream industries that buy US-made chemicals, including farmers and manufacturers.

These tariffs will weaken the competitiveness of the US chemicals industry and the United States as a whole.

Second, the chemicals and plastics appearing on List 2 invite retaliatory tariffs from China, and by virtue of that retaliation, inadvertently give China the upper hand over our growing industry. Let me explain.

Due to shale gas and lower cost to produce and export chemicals, US chemical manufacturers are competitively advantaged compared to Chinese producers if there are no US tariffs and China does not retaliate.

China knows that chemicals are used in almost every manufacturing activity here in the United States, and chemicals are essential to creating the downstream products that are consumed domestically and exported.

As such, China's tariffs will hit the US chemical industry not once but twice, since demand for chemicals by manufacturers that make products containing chemistry will drop. China's retaliation against US-made chemicals will also make it prohibitive to supply China's large and growing demand for chemicals.

We believe China may have targeted US chemicals exports because it is an area where the United States is poised to grow the most. Fifty-four out of the 114 products on China's List 2 are chemicals, plastics, and plastics products. These products are largely basic chemicals, plastic resins, specialty chemicals, and finished forms of plastics, for example, film sheets and other plastic products.

China is already retaliating against the US tariffs listed in Annex A to the Federal Register notice from June 20. Its corresponding list of retaliatory tariffs will impact $5.4 billion in exports of US-made chemicals to China. China's List 2 is a clear signal that it will retaliate again if the USTR applies a 25% tariff on the products in Annex C.

That China included these products on its tariff list is a recognition of the competitiveness of the US chemicals industry and the challenge it poses to China's own fast-growing chemicals industry. That is why chemicals, arguably more than any other product, do not belong on the front lines of this trade war.

We therefore strongly urge the US Government to rescind and avoid the imposition of tariffs, and therefore preempt additional retaliation by China.

The American Chemistry Council supports efforts by the Administration to resolve concerns with China, but we strongly believe that these longstanding problems should be addressed through constructive negotiation and enforcement of the WTO, where possible, rather than through the blunt instrument of tariffs that could make the world's most important economic relationship even more difficult.

There is ample evidence that tariffs lead to higher costs for downstream producers, higher prices for consumers, fewer jobs in downstream industries, and less economic growth, investment, and innovation in the United States.

Imposing increased duties on the products in Annex C of the Federal Register notice would not be practicable or effective to obtain the elimination of China's acts, policies, and practices. In fact, these duties, if applied, would cause disproportionate economic harm to US interests, including small and medium-sized enterprises and consumers.

We have included impact stories from our members in our public comments. And we have actually provided to you a list today of these impact stories.

We anticipate offering more such stories in our public comments for the $200 billion list of tariffs, which would hit the entire spectrum of chemicals and plastics products of interest to the business of chemistry in the United States. In fact, that's $16 billion of imports of plastics and chemicals from China on that $200 billion list, which is one-fourth of the total number of products on that list.

I thank you for your time and look forward to your questions.

MR. BURCH: Thank you, Mr. Brzytwa. Our

next panel witness is Lisa Burns of Reynolds Consumer Products, LLC. Ms. Burns, you have five minutes.

MS. BURNS: Good morning, Mr. Chairman and panelists. My name is Lisa Burns, and I'm the Vice-President of Marketing for Reynolds Foil and Cooking with Reynolds Consumer Products, RCP.

RCP manufactures and markets products sold under two of the most trusted household brands, Reynolds and Hefty. For more than three generations, our brands have been a part of family kitchens in the United States and throughout the world.

I am here today to urge that the tariff classification applicable to imported polyethylene plastic wrap, subheading 3920.10, be removed from the list of products that will be subject to an additional 25% tariff.

In January 2018, our company launched a new, innovative product, Reynolds KITCHENS Quick Cut Plastic Wrap, to address consumers' frustration with conventional plastic wraps. According to the

Cambridge Group Demand Landscape in 2016, over 55% of plastic wrap users were frustrated with plastic wraps, and their number one frustration was difficulty in dispensing.

With this information, we focused our attention on the packaging of the product to address the frustration of consumers. The innovative features of this new product include, one, a built-in slide cutter as part of the product packaging to ensure a clean cut each time the product is used.

Two, a Starter Edge that makes it easy to find the start of the roll. And three, packaging that automatically holds the roll in place to make dispensing easier. Because of the new, innovative features, consumers are embracing our new product and we continue to grow our market share.

RCP manufactures most of our products in the United States and Canada. Our preference would have been to manufacture and source Reynolds KITCHENS Quick Cut Plastic Wrap in the United States. However, we determined a source product from outside of the United States, due to the complexity of the unique packaging features.

The imposition of an additional 25% duty on imports of PE plastic wrap would have a significant negative effect on RCP's ability to continue to offer Reynolds KITCHENS Quick Cut Plastic Wrap to consumers. Further, the imposition of a 25% tariff on imports of PE plastic wrap will not advance the Administration's objectives in this proceeding.

First, the manufacturing of PE plastic wrap is not a priority of the Made in China 2025 Initiative. Rather, that initiative is focused on emerging high tech industries that the Chinese Government believes will drive future economic growth, including artificial intelligence, aerospace augmented and virtual reality, high-speed rail and shipping, and new energy vehicles.

Second, manufacturing PE plastic wrap does not involve sensitive industrial technology. To the contrary, the technology needed to manufacture PE plastic wrap has been widely available for many years. PE plastic wrap is manufactured using a simple process that involves extruding resin to form the film.

The wide dispersion of that simple technology is demonstrated by the United States importing PE plastic wrap from a range of countries, including France, Germany, India, Macau, South Korea, Taiwan, and Vietnam.

Third, to the best of our knowledge, the Chinese supplier from which we source Reynolds KITCHENS Quick Cut Plastic Wrap has not benefitted from any support made available pursuant to the Made in China 2025 Initiative.

Fourth, our company was not required to transfer sensitive intellectual property to any Chinese entity in connection with the decision to source PE plastic wrap from China.

Although we believe the features that make our new product innovative and unique are significant, they are clearly distinguishable from the types of technologies the Government of China has worked to acquire to maximize its opportunities to dominate certain high tech sectors.

Fifth, our company has not experienced any theft of intellectual property by any Chinese entity in making arrangements to source Reynolds KITCHENS Quick Cut Plastic Wrap from China or in any other sense. The absence of such efforts further demonstrates that there are no sensitive technologies associated with manufacturing PE plastic wrap in China.

Finally, the imposition of a 25% tariff on PE plastic wrap will impose a significant financial impact on RCP. Our company is currently evaluating alternative sourcing options and will potentially transfer production to another location. The challenges we are facing are with cost and capability.

For these reasons, we respectfully urge the Section 301 Committee to remove the tariff classification for PE plastic wrap from the list of products subject to a 25% tariff. Thank you, and I'd be pleased to answer any questions you might have regarding my testimony.

MR. BURCH: Thank you, Ms. Burns.

Our next panel witness is Mark Maroon of Maroon Group, LLC. Mr. Maroon, you have five minutes.

MR. MAROON: Thank you for allowing me to testify this morning before the Section 301 Committee. My name is Mark Maroon, Chief Technology Officer of Maroon Group, LLC.

Maroon Group is a distributor of specialty chemicals. Headquartered in Avon, Ohio, we employ 225 people, have operations and offices in seven states, and conduct business in over 35 states. Maroon Group services over 5400 customers across multiple industries. We were founded in 1977 as a family-owned and operated business.

From our Midwestern roots we have grown into a multi-company group. In the last four years alone our employee headcount has grown over 400%.

If several HTS categories currently listed in Annex C of USTR's June 20, 2018 notice remain on the list for a retaliatory tariff against

China, Maroon Group and its many customers will suffer injury, and these tariffs would hinder the growth of this US-born-and-bred company.

More than a third of our employee count are employed in sales. Increasing prices as a result of a 25% tariff could lead to a shift in the demand for our materials, possible halt our growth strategy, and eventually lead to elimination and consolidation of our US-based workforce.

Maroon Group supports the intentions of this Section 301 investigation, however, we respectfully request that the Committee reconsider the placement of four broad HTS categories, or any supplemental tariff list concerning China. Maroon Group's written submission provides more detail on these four HTS categories and products that fall under their descriptions.

In each case, these HTS categories are broad categories for plastic articles that might also capture many specialty chemical products that are used in a wide variety of applications.

I believe our industry and the many

specialized chemicals that we must globally source and import to satisfy our US customer base are unintentionally caught in the crossfire of your efforts to restrict other products that might fall into these broad categories.

The focus of my comments today are on one particular chemical. Maroon Group is an importer and distributor of a chemical captured under HTS 3907.20.00. This chemical is necessary in paint and other coatings mixtures used for UV light absorption and stability to protect against degradation from ultraviolet light.

This chemical falls under the general description of benzatriazole, used extensively as a UV light absorber. There are sources for this chemical worldwide. However, no manufacturing exists in the United States. Let me be clear, this specialty chemical is not manufactured at all in the US. It must be imported.

As I mentioned earlier, this HTS category is very broad and captures this, the benzatriazole product that Maroon Group and its customers rely upon. On this specific HTS, there were 1944 imports of containers received into the United States last year, 87 of which came from China. Of those 87, only ten involved the chemical we rely upon.

These ten containers, further, represent less than three percent of the chemical consumed in the United States on a calendar year basis. At the very least, if this HTS category is not excluded from Annex C, this particular product should be excluded.

Note that every other benzatriazole product falls under HTS heading 2933.99.12 and 2933.99.79. Every other one. These subheadings are not subject to any additional tariffs as part of this Section 301 investigation. But the product we and our customers rely upon has been placed under this 3907 heading.

The product we must import from China has the same molecular structure as other benzatriazole products. The only difference is the addition of a chemical ring to the product we import. Until 2011, Maroon Group's product was classified under the HTS 3812.30.00 subheading, and no duty was applied.

This chemical was moved under the 3907 heading, where six and a half percent duty was applied. While we were able to adjust to that duty, the addition of 25% more has the very likely effect of removing Maroon Group's ability to sell this product in the US market. This would cripple our current and future business arrangements, opportunities, and ultimately causing undue hardship to our customers.

Finally, while Maroon Group sells to manufacturers of paint and coatings, the ultimate end user of this chemical falling under this 3907 HTS category is the average US consumer. Every can of water-based paint or stain that a consumer buys at a hardware store or paint store or any number of big box retailers is formulated using the material that Maroon Group imports from China.

Anyone who paints their house, their deck, wood roof or fence, or otherwise needs a product with a protective coating that these chemical additives offer will suffer, as prices could rise significantly due to the reduced competition in the United States.

Further, every automobile produced in the United States that incorporates environmentally friendly paint, as an example, water-based paints with low or no volatile organic compound, which is a growing trend in the industry, incorporates this additive.

As for the other three HTS categories I mentioned --

MR. BURCH: Sir, can you please wrap it up, please.

MR. MAROON: Sorry. Again, while Maroon Group agrees with, that China has unfair practices must cease, implementing these tariffs will cause undue hardship in many different ways. We respectfully ask that you remove this.

MR. BURCH: Thank you, Mr. Maroon. Our next panel witness is Patricia Phillips of SNP. Ms. Phillips, you have five minutes. Oh, turn on your mic.

MS. PHILLIPS: Good afternoon, Chairman, and speaker, and Section 301 Committee. I am Pat Phillips, President of SNP, Inc., a small, woman-owned and family-operated US specialty chemical manufacturer based in Durham, NC, and founded by my father, a World War II vet, in 1961.

We supply synthetic and natural rheology modifiers and customized coating formulations to the paper, packaging, textile industries and other industrial markets. On behalf of SNP's 20 dedicated team members, I thank you for the opportunity to appear before you today.

SNP respectfully requests that the USTR remove alginic acid, classified under the US Harmonized Tariff Schedule subheading 3913.10.00, from the proposed list of products subject to the Section 301 tariffs.

Alginic acid is a naturally occurring compound found in the cell wall of certain types of seaweed. These brown algae seaweeds are exclusively harvested and manufactured into alginic acid outside of the United States, with the majority of global production occurring in China.

SNP imports the alginic acid to be manufactured into specialty chemicals which are used in papermaking, paper coatings, textiles, printing, and certain specialty industries. While SNP is supportive of the goals of the USTR and that the Administration have outlined in various reports detailing China's aggressive and discriminatory policies, today I'd like to outline three reasons why alginic acid should be excluded from the list of proposed tariffs.

First, a tariff on alginic acid will cripple SNP. Our family is proud that we have grown our small business to serve as the largest industrial supplier of alginic acid in the US, and there are no other domestic suppliers like SNP.

Our production will be impacted severely, while providing our foreign competitors who supply US customers with a competitive advantage, because our foreign competitors would not be subject to the tariff. They do not process this material, kelp seaweed, in the US.

For approximately the last 40 years, SNP has been able to provide the US manufacturing industries with the alginate products necessary to meet US consumer demand for green paper and textile products. Alginic acid is a sustainable and natural alternative to many petroleum-based synthetic polymers.

For example, our alginic products' very unique natural properties make it a critical component to the papermaker trying to achieve compostability and recyclability for our environment. As US manufacturers seek to make green products, demand for alginate-based coatings have significantly increased. However, the proposed tariff jeopardizes our ability to supply our US customers.

Second, alginic acid is not available from any other supplier outside of China in the quantities needed to supply SNP's US customers. China is the principal area for where the majority of brown algae seaweeds are naturally grown and then manufactured into a limited supply of alginic acid.

SNP is unaware of any US-based harvesting and manufacturing of seaweed into the alginic acid necessary to create our products. Therefore, developing a US manufacturing capacity and sufficient domestic seaweed supply is technically and economically infeasible.

Lastly, a tariff on alginic acid will not be effective in curbing China's Made in China 2025 industrial policy. Specifically, the majority of the USTR and Administration's reports focus on Chinese investment and development of the industries.

In particular, alginic acid is not among the list of advanced technologies such as information technology, robotics, and agriculture machinery among others that are targeted by Chinese Government policies. As such, we believe that targeting these tariffs on alginic acid will not curb China's predatory policies.

In conclusion, SNP respectfully requests that alginic acid be removed from the Section 301 tariff list. Our family is working hard to continue to grow and invest in our small business that my father started 57 years ago.

The proposed tariff will not accomplish the desired purpose, but will severely damage SNP and threaten our very existence as the only US manufacturer importing alginic acid to process it into green chemistries for our industrial customers. Thank you for your consideration, and I welcome any questions the Committee may have.

MR. BURCH: Thank you, Ms. Phillips. Our next panel witness is Jim Pigott of Medline Industries, Inc. Mr. Pigott, you have five minutes.

MR. PIGOTT: Thank you for the opportunity to represent my company, Medline Industries, in providing comments on the proposed tariffs on imports from China.

Medline is the largest privately held medical supply company in the United States. We sell over 200,000 different medical products, most of which are commodity in nature. Our customers include hospitals, surgery centers, long-term care facilities, physician offices, home care, and retail consumers.

We are based in Northfield, Illinois, and employ approximately 13,000 people in the United States. I have the honor of serving as one of Medline's divisional group presidents.

We are concerned about the inclusion of medical supply products in the proposed Section 301 action. As listed in my written testimony, we are particularly concerned about the impacts the action will have on medical equipment covers and plastic surgical drapes, medical wipe warmers, and thermometers.

The proposed 25% tariffs will not advance the goal of Section 301 action and will have a disproportionately negative effect on our low margin business segments, thus greatly impacting hospitals, consumers, and the medical community.

First, we believe that tariffs on these

products will not discourage Chinese technology transfer policies, which is the express goal of the Section 301 action. Our imports are inexpensive, low technology, large volume products that are not subject to patents. This is an example of a medical equipment cover that is impacted by the tariffs.

We have never been required to transfer any technology or intellectual property to China. The Made in China 2025 strategy does not prioritize these low technology, low margin, high volume products.

Second, there would be significant impacts on our business and our customers. In the near term, the tariffs would negatively affect our business's profitability, with consequences for our US investments and employment. Over time, the tariffs will cause price increases for hospitals, surgery centers, nursing homes, and individual consumers who purchase our healthcare products.

Hospitals operate on thin margins, which makes absorbing costs extremely difficult.

Nursing homes operate on even tighter margins. As for consumers, a large percent of our thermometers are sold directly to retail customers, who would see price increases because of such tariffs.

Changing our supply chain is not a practical solution in the near term. Moving production on these low tech products back to the United States is not a viable option. Production facilities do not exist, and even if we were to create them, the financial burden on healthcare providers would be exponentially greater.

Moving to any other location outside of China would be expensive and time-consuming. Transition challenges are partly due to the difficulties in developing reliable supply chain capacity in other countries, particularly given the need for consistent, high quality medical supplies.

Even if alternative suppliers were available outside of China for these Class I and Class II medical devices, the transition poses regulatory and compliance challenges. Finding new suppliers with excess capacity that are already complying with FDA regulations is unlikely. Developing a compliant quality management system at a new supplier takes time and substantial resources. This process can take more than two years.

In conclusion, due to the fact that the 25% tariffs on these low margin products will not advance the goal of Section 301, coupled with the potential for significant impact to the healthcare system and American consumers, we request that these products be removed from the final Section 301 tariff list. Thank you.

MR. BURCH: Thank you, Mr. Chairman, this concludes this panel's testimony.

MS. HENNINGER: Thank you. Mr. Brodie, the question is for you. Would the imposition of the tariff cause a shortage of ion exchange resin in the United States? And if so, what would the effect be on public health with respect to water purification and decontamination?

MR. BRODIE: Well, just a short description of what ion exchange is. It does exactly what it says, is it exchanges ions, if everything in this world is a positive or negative, it exchanges excess positive or excess negative ions. So it works in parts per million, parts per billion, and parts per trillion.

And what we're looking to remove from most municipality drinking water are nitrates, perchlorates, arsenic.

And the shortage of resin, which cannot be replaced, there's a world shortage of resin, this isn't a US shortage, it's a world shortage. That these municipalities cannot and will not get the products they need in a timely basis to make sure that they can comply with FDA standards for drinking water.

By the same token, in addition to that question, industry processes its chemicals before use, it also processes waste water. And ion exchange resin is used to process those. So industry would end up being noncompliant with EPA standards.

In effect, for a very small industry of a little over a billion dollars a year worldwide and imports of significantly less than $100 million into the United States, this could be quite critical, with severe unintended consequences, and possibly an event similar to Flint.

CHAIR TSAO: A quick follow-up to that. Are there alternative substitutes for ion exchange resin? And number two, what is sort of the cost of resin in proportion to the total cost of the purification or decontamination process?

MR. BRODIE: The answer to your first question is no, absolutely not. And the cost of resin as a percentage of a process depends on the process. So it's not an easy question to answer. But it is critical, irrespective of the cost.

And the fact that there is a worldwide shortage, if we cut off that supply, and our Chinese plant is one of our bigger plants, if we cut off that supply, there will be severe consequences.

MS. PETTIS: Good morning, this is a

question for Mr. Brzytwa. Can you elaborate further on the competitive relationship between Chinese chemical producers and your members. Do Chinese producers supply the basic or intermediate chemicals as your members' supply chain, or do your members compete with the Chinese chemicals themselves?

MR. BRZYTWA: It's a great question. I think like any relationship with China, it's a complex relationship. I think a number of our members are competing with Chinese companies. But then we have a group of members that are importing from China to manufacture product in the United States.

Some import feed stock, some might be importing a specific type of products that they're going to transform into something else. So you know, we are worried about the bigger picture here.

And I think some of our members, even if they haven't, you know, come forward to testify or provide public comment, they're telling us that they're deeply concerned about the impact of a 25%

tariff on all the products that are identified in List 2, and they're even more concerned about what's coming down the road.

MS. PETTIS: Thank you.

MR. BOBSEINE: This is a question for Ms. Burns. Ms. Burns, according to your testimony, the technology needed to manufacture polyethylene plastic wrap is not cutting edge. If this is the case, couldn't the PE wraps be sourced from other countries you've cited, such as Germany, India, Macau, etc.?

MS. BURNS: Yes, excuse me, yes. Manufacturing the PE can be done in any number of places. The difficulty is in the assembly of the container itself.

So the innovation is not the polyethylene film per se, but it's the application of the slide cutter onto the package, and then the assembly of the package. That is required to be done in a semiautomatic fashion to get the through-put we need for the capacity of the number of boxes we need. And that required producing in

China.

MR. BOBSEINE: I'm sorry, that is an absolute requirement, there is not another source for that?

MS. BURNS: Not currently, no. The manufacturing capability of the box itself, the capital required is not available in the United States right now. We are looking at other countries to be able to assemble the container itself. But right now that would take somewhere between 15 and 18 months and significant capital investment.

MR. BOBSEINE: Thank you.

MS. PETTIS: I have a quick follow-up question on that. You, the film itself is put into the container and the whole thing is shipped from China into the United States. So you have the package and the film inside, is that how you do it?

MS. BURNS: Yes.

MS. PETTIS: Okay.

MS. ROY: This question is for Mr.

Maroon. Mr. Maroon, out of the 1944 containers received in the United States, how many non-Chinese containers have the chemical product captured under HTS 3907.20.00?

MR. MAROON: I want to make sure I understand your question correctly. You're asking me of the material that I'm concerned with, my chemical?

MS. ROY: Yes.

MR. MAROON: How many containers came from countries --

MS. ROY: Other than --

MR. MAROON: China.

MS. ROY: Right.

MR. MAROON: We didn't examine that. My purpose was to validate what was happening with China, based on Section 301's concern. But bear with me one second. Yes, that's my answer. What I can tell you, though, is the only other countries that, where that material could come from are Mexico, Taiwan, and Germany.

MS. ROY: Okay, that was the second

part to my question. Thank you so much.

CHAIR TSAO: A follow-up. For Mexico, Taiwan, and Germany, are they able to ramp up production to make up shortfalls from China?

MR. MAROON: In all cases, those three countries only represent two other competitors, if you will, two major competitors, and we are not in a position where we can source from our key competitor, if that makes sense. We would be eliminating, you would be eliminating the third, okay, and potentially a fourth.

CHAIR TSAO: This question is for Ms. Phillips. You mention that China's main principal area for growing the brown algae seaweeds. My question is can and is this type of seaweed grown anywhere in the world?

MS. PHILLIPS: No.

CHAIR TSAO: That is, is there a particular advantage for, geographic advantage for China to grow these seaweeds?

MS. PHILLIPS: No, it's a natural product. It can't be grown in greenhouses or anything, it's Mother Nature. And it's only found in certain pockets globally in the world, very few. And then it's harvested and manufactured into this alginic acid.

So the US actually has the kelp, but they're not currently manufacturing it, and decades ago they went out of business. So it was at one time available off the coast of California, it's still there. But it's not manufactured anymore in the United States.

Environmental reasons closed them down. It's a very water-intensive process to cultivate and bring in and then wash it. That's millions of gallons of water, and California is very tough on water, and they're also very tough on environmental, going out and harvesting this kelp, you know, where the manatees live and the sea lions live, and then the price of doing business in California.

So decades and decades ago, they were all closed. And so that kelp is no longer available on the worldwide market. It's only grown three different continents, Europe, Asia, and South America. And we globally source it, but China is a prolific area. And everybody else that's manufacturing it will be able to purchase the kelp from China and not pay the additional tariff. Thank you.

MS. HOWE: My question's for Jim Pigott. Are any of the medical devices you discussed components of high tech or cutting edge technology?

MR. PIGOTT: No, they really aren't, none that are cleared in this List 2. Some of them are used within a kit that's used within surgery that is also essentially a commodity product with a lot of basic medical disposable supplies included in it.

MS. HOWE: And then setting aside the difficulties that you outlined of changing suppliers, are these products produced outside of China and available outside of China in sufficient capacity to meet demands of the US market?

MR. PIGOTT: They really are not. The footprint does not exist. You know, we're importing thousands of containers a month, and the footprint does not exist to absorb the capacity.

For example, on medical equipment drapes, there just aren't the factories today available. So it would require a process of finding factories, developing factories, setting up good GNP process quality systems, going through an FDA process would be a time-consuming process.

MS. PETTIS: I have a follow-up question to Mr. Maroon. It had to do with the way I guess the benzatriazole products, you said that are classified, and that this one particular product which you're concerned about is the only one under the 3907 heading.

MR. MAROON: Mmm hmm.

MS. PETTIS: And have you ever tried to switch it to the other headings with the other benzatriazole, or is it because of the particular chemical additive?

MR. MAROON: The molecular structure was determined because it is sufficiently different, okay, that it needed to be under a different classification other than these other benzatriazole chemical materials, okay.

MS. PETTIS: Yeah.

MR. MAROON: Pretty much the general scientific answer, I guess.

MS. PETTIS: Okay, thank you.

CHAIR TSAO: Great, that's it for this panel.

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

CHAIR TSAO: If there are no further matters to take up, this hearing is adjourned.

(Whereupon, the above-entitled matter went off the record at 12:09 p.m.)