UNITED STATES TRADE REPRESENTATIVE

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301 COMMITTEE

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SECTION 301 TARIFFS PUBLIC HEARING

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MONDAY
AUGUST 20, 2018

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The 301 Committee met in the Hearing Room of the 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
EMILY BLEIMUND, Department of Health and Human Services
SARAH BONNER, Small Business Administration
MARIA D'ANDREA-YOTHERS, Department of Commerce
JANET HEINZEN, U.S. Trade Representative
BILL JACKSON, U.S. Trade Representative
RACHEL KNISLEY, U.S. Department of Agriculture
STEVAN MITCHELL, Department of Commerce
MAUREEN PETTIS, Department of Labor
RACHEL SALZMAN, Department of Commerce
PETER SECOR, Department of State
ANDREW STEPHENS, U.S. Department of Agriculture
ADAM SULEWSKI, Department of Homeland Security, Customs and Border Protection
TERRENCE McCARTIN, U.S. Trade Representative
AMY ZUCKERMAN, Department of the Treasury

STAFF PRESENT
BILL BISHOP, U.S. Trade Representative
TYRELL BURCH, U.S. Trade Representative

WITNESSES PRESENT
TONY ABBOUD, Vapor Technology Association
WILLIAM ALEXANDER, 5N Plus Semiconductors
ERIK AUTOR, National Association of Foreign-Trade Zones
SCOTT BARFIELD, William Barnet & Son
SARA BEATTY, National Council of Textile Organizations
ROSS BISHOP, BrightLine Bags, Inc.
BRIAN BLOCH, SimpliSafe, Inc.
MIKE BRANSON, Rheem Manufacturing Company
EDWARD BRZYTWA, American Chemistry Council
BELLE CHOU, Shen Wei USA
SAM COBB, Real Wood Floors
JOSEPH COHEN, Snow Joe, LLC
TOM COVE, Sports and Fitness Industry Association
PATRICK CUNNANE, PeopleForBikes and American Sports Enterprise
JONATHAN DAVIS, SEMI
JIM DAY, 47 Brands, LLC
DARREN DUNN, SOG Specialty Knives & Tools
DANIEL FABRICANT, Natural Products Association
JESSICA FEGAN, Connecticut Chemical, LP
STUART FELDTEIN, Albaugh, LLC
STEVE FRAZIER, HLP Klearfold
KAREN GIBERSON, Accessories Council
JOSEPH GRUCHACZ, Canaxy USA, Inc.
RICK HABBEN, Wahl Clipper Corporation
EVA HAMPL, U.S. Council for International Business
JEN HARNED, Bell Sports, Inc.
RICHARD HARPER, Outdoor Industry Association
DOUGLAS HEFFNER, Dole Packaged Foods
KIM HEIMAN, Standard Textile Co
ELIZABETH HIGGINS, Owens Corning
MICHAEL HUFF, Ascensus Specialties, LLC
KEN IPPOLITI, SouthernCarlson, Inc.

MARC JACKSON, Teckrez, Inc.
JERRY JOHNSON, Blount International
TODD KESKE, Foam Supplies, Inc.
DAVE KIERSZNOWSKI, DEMDACO
GENE KONCZAL, Yanjan USA, LLC
COLTON LA ZAR, National Candle Association
STEPHEN LAMAR, American Apparel & Footwear Association
STEPHEN LANG, American Bridal & Prom Industry Association, Inc.
LARRY LITTLE, Trayton America, Inc.
BOB MARGEVICIUS, Bicycle Product Suppliers Association and Specialized Bicycle Components
MELISSA MASH, Dagne Dover
MIKE MASSEY, Ragan and Massey, Inc.
DAVID MATHISON, Leather Miracles, LLC
ROBIN McCANN, Archroma US, Inc.
JOHN McGRATH, Pactiv, LLC
MATT MOORE, Quality Bicycle Products, Inc.
GREGORY NELSON, EW Polymer Group, LLC
MARK O'BRYAN, TricorBraun
MATT ROWAN, Health Industry Distributors Association
RICHARD RUZZINI, Johnson Matthew, Inc.
MICHAEL SAIVETZ, Richloom Fabrics Group
VISHAK SANKARAN, Bushnell Holdings, Inc.
CHARLIE SOUHRADA, North American Association of Food Equipment Manufacturers
DAVID STEVENS, Tire Retreat and Repair Information Bureau
ANDREW TAYLOR, Juice Products Association
NICOLE VASILAROS, National Marine Manufacturers Association
TERRY WITZEL, Onward Manufacturing Company
SHAWN XU, Lianda Corporation
SADIQ YAKOOBI, Bloomage Freda Biopharm USA, Inc.
ERIC ZETTERQUIST, Zetterquist Galleries

C-O-N-T-E-N-T-S

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

(9:30 a.m.)

CHAIR BUSIS: Will the room please come to order?

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

The United States Trade Representative initiated the investigation on August 18, 2017. Since that time, the trade representative has determined to take two actions in the investigation.

On June 20th, 2018, USTR published a Federal Register notice imposing an additional duty of 25 percent on products from China with an annual trade value of approximately $34 billion, effective July 6, 2018.

On July 16, 2018, the USTR published a Federal Register notice imposing an additional duty of 25 percent on products from China with an annual trade value of approximately $16 billion, effective August 23, 2018.

Unfortunately, China has not responded to these actions by addressing the unfair and harmful acts, policies, and practices found in the investigation.

Instead, China has chosen to attempt to cause further harm to the U.S. economy. Accordingly, on July 17, the USTR published a Federal Register notice seeking public comment on a proposed supplemental action to be taken in the investigation.

The proposed supplemental action is an additional duty on a list of products from China with an annual trade value of approximately $200 billion.

The proposed rate of duty for the supplemental action was initially 10 percent. On August 7, the USTR published a Federal Register notice announcing that the trade representative was considering a 25 percent rate of additional duty for the supplemental action.

The purpose of this hearing is to receive public testimony regarding the proposed supplemental action as described in the July 17 and August 7 notices.

Written submissions including post-hearing comments should be submitted by no later than September 6. The Section 301 Committee will carefully consider the testimony and the written comments.

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

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

The hearing is scheduled for six days, concluding Monday, August 27. We have 46 panels of witnesses with over 350 individuals scheduled to testify.

The provisional schedule has been posted on the USTR website. We have eight panels of witnesses scheduled to testify today. We will have a brief break between panels and a 35-minute break for lunch.

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

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

Committee representatives will generally direct their questions to one or more specific witnesses. As noted, post-hearing comments including any written responses to questions from the Section 301 Committee are due

September 6th.

The rules and procedures for written submissions are set out in the July 17 Federal Register notice. Given the number of witnesses in the schedule, we request that witnesses, when responding to questions, be as concise as possible.

We likewise ask witnesses to be understanding if and when the chair asks that a witness conclude a response. Witnesses should recall that they have a full opportunity to provide more extensive responses in their post-hearing submissions.

No camera 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. If you could please introduce yourselves - Mr. Sulby.

MR. SULBY: Ari Sulby, Department of State.

MR. SULEWSKI: Adam Sulewski, Department of Homeland Security.

MR. MITCHELL: Stevan Mitchell, Department of Commerce, International Trade Administration.

MR. JACKSON: Bill Jackson, the Office of the U.S. Trade Representative.

MR. STEPHENS: Andrew Stephens, U.S. Department of Agriculture.

MS. PETTIS: Maureen Pettis, Department of Labor.

MS. BONNER: Sarah Bonner, U.S. Small Business Administration.

CHAIR BUSIS: And I am Bill Busis, Office of the United States Trade Representative and chair of the Section 301 Committee.

Mr. Bishop, introduce our first witness.

MR. BISHOP: Mr. Chairman, our first

witness today is Ross Bishop with BrightLine Bags, Incorporated.

Mr. Bishop, you have five minutes.

MR. ROSS BISHOP: My name is Ross Bishop. I am president and founder of BrightLine Bags in San Rafael, California. We design and manufacture a modular nylon gear bag system called the FLEX system for pilots and field professionals.

Our product brings an interchangeable component approach to the fact that pilots and other field professionals require different amounts of gear and different sets of gear on different days.

With a handful of our components you can build a hundred different bags. Our simple slogan is "Pick Your Parts, Build Your Bag."

And, in fact, this is one of our smaller configurations. We have been in business for 10 years and we do about a million dollars in annual global sales. Our products are sought out by the general aviation community as well as by commercial airline pilots and U.S. military pilots and crew.

Tens of thousands of pilots from all three categories as well as thousands of people who aren't pilots have come to depend on the unique functionality of the FLEX system to help them be more organized, better prepared, safer and more effective at what they do.

No other company is doing what we do. As with most companies in our HTS category of 4202, our products are manufactured in China.

The point of note here is not only have the Chinese been making most of the world's nylon bags for a long time, but I can tell you firsthand from working with five different Chinese factories and from my many personal visits to them in China that they are really good at it. In fact, if you pick the right factory, as I've done, they are actually artists.

We have made three specific and concerted attempts at getting our bags made in the U.S. and have learned from each instance that our costs would triple compared to what we pay now and the detailed quality isn't as good.

I can assure you that we'd be hard pressed to find customers that would buy our bags at the price we'd have to charge to make that work.

So the Chinese actually do make a better product than the U.S. companies that we have worked with and they do it for less money. This scenario is not going to change because the high-volume bag manufacturing industry no longer exists in the U.S.

For these exact reasons, most of the U.S. companies selling bags have them made in China. This fundamentally describes the market stance on bags.

Within that, my bags are most definitely at the high end of the market price point because they are among the most complex bags ever made.

The combination of having a specialized bag that is extremely complex to manufacture and having a relatively small volume of units for each order drives my costs up and then all the alternative low-priced low-functioning bags conspire to limit how much I can charge my customers, resulting in slim margins.

Landing where we do within the HTS category of 4202.12, we already pay 17.6 percent duties - more than three times the average tariff. A tariff that is this high to begin with is supposed to protect U.S.A. bag manufacturers.

But this one has long since failed that objective. Now we are faced with an additional 25 percent of duties, taking us to an absurd level of 42.6 percent.

This enormous increase has the undeniable potential to be crippling to my company and we will have no option but to pass this extra cost onto our customers, which can only lead to fewer customers choosing our products.

Higher costs and fewer customers is not a recipe for success. Without a doubt, second only to the cost of the inventory itself, the duties bill we get is our single biggest cash expense. We have repeatedly been forced to take on short-term debt to allow us to receive our shipments even. Increasing our duties by 240 percent with no offsetting benefit is unjustifiable.

The claim that these tariffs are necessary in the name of national security - that's the claim - in this category that premise is false. Gear bags are not a threat to national security.

This is a political game being played with my company as the game piece. The claim is also that these tariffs will cause consumers to buy U.S.A.-made products. In this case, that premise is also false.

Consumers will find nearly as affordable bags from Vietnam, Taiwan, Hong Kong, but not the U.S.A. Not only do these tariffs not help - not only do these tariffs end up helping countries other than U.S.A. but they also still help China because most of the world's raw materials like nylon come from China. So even goods made in a Taiwanese factory end up being a cash stream to China.

The objective of this tariff, therefore, is fully negated. It is for these reasons that I am hereby requesting that HTS Code 4202.12 be excluded from any additional tariffs.

Please help me not only keep my company alive but actually help me grow my company so that we can continue making a real difference to the important field professionals we touch every day.

Do not let this ill-advised and harmful tariff see the light of day.

Thank you.

MR. BISHOP: Thank you, Mr. Bishop.

Our next witness is Jim Day with 47 Brand, LLC. Mr. Day, you have five minutes.

MR. DAY: Thank you. Good morning. My name is James Day. I am vice president of - I am James Day. I am the vice president of the global supply chain for 47 Brand, headquartered in Westwood, Massachusetts.

Thank you for the opportunity to explain our position on the proposed tariff increase for goods imported from China.

47 Brand is an industry-leading sports lifestyle brand and our story is the epitome of pursuing and living the American dream.

47 was founded in 1947 by twin brothers and Italian immigrants Arthur and Henry DeAngelo. The twins started by selling pennants and other sports memorabilia on the streets around Fenway Park in Boston.

Their entrepreneurial venture quickly grew from a single street cart to a global brand that sells high-quality headwear, apparel and accessories to cover the head to toe needs of fans and fashion trend setters alike.

Today, 47 Brand is a proud licensed partner of MLB, NFL, NBA and the NHL as well as over 900 colleges and universities, just to name a few.

We are also the exclusive headwear provider to Operation Hat Trick, a nonprofit organization that supports our veterans. Our company employs about 365 people in the United States and 15 internationally.

We own our global headquarters located in Westwood, Massachusetts, distribution centers and manufacturing facilities across Massachusetts.

We also have offices in Colorado, Arkansas and are affiliated with the Boston Red Sox team store at Fenway Park.

The majority of the headwear we import from China are finished goods, ready to sell with embroidered team logos like this. We also import some blank product without any logos like this.

To sell the blank product, we work with our domestic production partners in California, New Jersey, Texas and Massachusetts, and when playoffs or other events arise, we may employ additional factories around the country to capture last night's game, decorate the caps with the winning team's logo and have in the local stores the next morning.

Given that background, we are vehemently opposed to the enormous increase in duties, knowing such an increase will be significantly detrimental to our business and the approximately a thousand individuals and their families across the United States that support us.

If these proposed tariffs are passed, average duties on the majority of our products will increase from 7.5 percent to 32.5 percent. This will result in a multi-million-dollar annual cost increase and will significantly reduce our bottom line.

Most consumers cannot or would not pay 25 percent more for a ball cap and if this increase in tariff takes effect, our business will stagnate, if not decline altogether.

Ultimately, we'd be forced to make up the - to absorb the increase and make up the difference by cutting overhead costs. This would lead to eliminating jobs in order to stay afloat.

You may ask why we don't move our headwear manufacturing to the United States or at least outside China and the answer is simple. We cannot.

The cut and sew infrastructure in the United States moved overseas decades ago and would take at least a decade to return if it could be reestablished at all.

There are currently no operations outside of China that could produce the quality and quantity of goods required by 47 and our competitors are facing the same dilemma.

Additionally, due to the requirements of our U.S. licensors, we are required to work with manufacturers that maintain the highest level of social responsibility standards.

Starting with Arthur DeAngelo, we have invested over 30 years building long-term, effective and mutually beneficial partnerships with trusted and industry-leading headwear manufacturers in China.

Our Chinese partners must pass routine unannounced audits and are confirmed and committed to socially responsible engagement with their employees.

They manufacture our headwear products in high-quality safe and modern facilities. These are the same facilities that produce headwear for most major brands prevalent in the U.S. marketplace today.

Please understand we are supportive of the president's desire to protect U.S. businesses, continue economic growth, bring jobs to the U.S.

Our position is that these proposed tariff increases would do the exact opposite.

I've worked in industry-leading brands like 47 for over 18 years, have partnered with China-based manufacturing operations throughout my career.

I understand that some matters related to intellectual property are trade secrets. There is a trade imbalance. In headwear, there is no such threat.

Not only do we audit our Chinese manufacturing partners regularly to avoid intellectual property violations, but our partners are proactive in ensuring they are protecting our and our licensors' intellectual property.

In short, our relationship with Chinese manufacturers is an IP success story. We have never had complaints from the licensors regarding this appropriated intellectual property.

In fact, our licensors must approve the use of Chinese manufacturers and have built an IP registration system in collaboration with China customs.

This system will be detailed in our written comments.

Finally, headwear is not part of the China 2025. So these tariffs won't meet USTR goals.

In conclusion, we respectfully request

that this committee exclude HTS Code 65050015, 65050020, 65050025, 65050030, 65050040, 65050060, 65050080, and 65050090 from the list of tariff goods suggested for increased duties.

Thank you for your consideration and the opportunity to share our story with you. I welcome any comments or questions the committee may have.

MR. BISHOP: Thank you, Mr. Day.

Our next witness is Melissa Mash with Dagne Dover.

Ms. Mash, you have five minutes.

MS. MASH: Thank you for giving me the opportunity to participate in this hearing. I am Melissa Mash and I am testifying on behalf of Dagne Dover, a handbag and accessories brand that I started in 2012 along with two other women, Deepa Gandhi and Jessy Dover.

I sincerely appreciate this opportunity to appear before you to address the potential additional 25 percent tariff and how it would negatively impact not only our business but the greater $12 billion U.S. handbag industry.

My co-founders and I founded Dagne Dover with the goal to give people great looking high-quality bags that also included smartly organized interiors, all at an accessible price point.

Prior to our brand, such offering did not exist. Since our launch in 2013, we have been able to double our business here every year by effectively scaling our supply chain to meet customer demand.

Like many brands, we started by manufacturing locally in New York City with many of the same factories that helped launch American legacy brands such as Kate Spade.

Unfortunately, U.S.-based manufacturers do not and continue to not have a sophisticated U.S. supply chain to lean on or the capabilities of scale as businesses grow.

From the beginning, we knew that we would need to shift manufacturing to Asia in order to grow our business and to offer high-quality bags to the American consumer at a compelling $200 average price point.

After we grew out of American manufacturing capabilities, we moved production to Vietnam. However, it was only a stop gap solution for us, as we needed the expertise of Chinese manufacturers who have deep knowledge and vast supply chain options from having worked with large American heritage brands like Coach, Michael Kors, and Kate Spade.

Without them, American brands like ours would not be able to compete on a global scale.

While there are factories in Southeast Asian countries like Cambodia, the Philippines, and Indonesia, these factories are only suitable for large brands producing millions of units per year.

While some large brands may still manufacture in China, this tariff largely impacts small to medium-sized businesses who rely on Chinese manufacturers as a stepping stone to eventually manufacture in other countries.

The purpose of Section 301 tariffs is to protect U.S. businesses from acts by China that could threaten U.S. commerce and we acknowledge and appreciate the importance of protecting the U.S. economy, U.S. businesses and U.S. intellectual property.

But for our industry, the tariff would only result in a negative financial impact for growing small to medium-sized businesses like ours.

We currently pay 17.6 percent duty for our coated canvas and neoprene bags from China and 9 percent for our leather handbags.

The additional 25 percent will bring our duties to 42.6 percent and 34 percent, respectively. This increase in our cost of goods will decrease our gross margin by an additional 14 percent. The financial impact for our small business would be devastating.

We would not hit profitability for many more years. We would not be able to hire the 10 additional people that we'd planned, and while we used to double our business year after year, we would be lucky if we were able to achieve double digit growth.

This also assumes that we'd be able to shift our manufacturing to another country over the next 12 to 18 months. Many less-established brands would easily shut down.

Additionally, we would have to increase retail prices, which would make it unaffordable for our customer base and cause us to lose our competitive positioning.

I want to reiterate that a brand like ours and a product like ours has market demand from around the world and it is only offered from the United States.

As such, this tariff would also likely lead to a decrease in U.S. exports. Additionally, I also want to highlight that our bags are a low-tech product that require an immense amount of manual labor that does not currently exist in the U.S.

Working with Chinese manufacturers as allowed us to build a high-growth American brand and the ability to work with Chinese manufacturers is what continues to support and grow the $12 billion U.S. handbag market and retail and consumer goods overall.

Retailers and customers rely on fresh new brands like us to drive innovation and handbag market growth.

This tariff would put us, other growing handbag brands, large and small retailers, and the future of the U.S. handbag and accessories market in jeopardy.

In short, since there are no relevant U.S. manufacturing options for businesses like ours at our stage of growth, this tariff purely decreases margin, strangling growing U.S. handbag brands, potentially increasing price points for U.S. consumers and all without increasing U.S. jobs.

As such, a 301 tariff on the handbag sector does not support the tariff's stated intent of boosting and protecting U.S. innovation and economic growth.

For all the reasons I presented, Dagne Dover respectively requests that the application of the proposed Section 301 tariffs to the 4202 HTS codes be removed from Section 301 applicability.

Thank you for your time and I welcome any questions you may have.

MR. BISHOP: Thank you, Ms. Mash.

Our next witness is Karen Giberson with the Accessories Council.

Ms. Giberson, you have five minutes.

MS. GIBERSON: Good morning. My name is Karen Giberson. I am the president of the Accessories Council, which is a not for profit trade association established in 1994.

Our mission is to promote consumer awareness and demand for accessories. We have about 300 companies that participate in our organization.

I am also a sourcing expert in leather

goods, having worked with many countries over the last 30 years, and I can tell you for sure it's not an easy category to move into other places.

I am also here speaking on behalf of the Council of Fashion Designers of America, the CFDA, a not for profit trade association founded in 1962 whose membership consists of over 500 high-profile American accessories, women's wear, men's wear and jewelry designers.

The majority of goods imported by our members are already dutiable at a high tariff rate ranging from 16 to 20 percent of the imported value.

The additional tariff will create a cumulative tariff rate that exceeds 30 percent and could go as high as 45 percent. This would subject handbags and luggage items to the highest tariff rates of any product imported into the United States.

In fact, these rates would be on par or higher than goods from countries that do not have normal trade relation, or NTR, status such as Cuba or North Korea.

The U.S. industry and consumers simply cannot absorb this significant increase. The products covered by the tariff provisions listed in Exhibit A consist of fashion accessory items as luggage, handbags, backpacks, wallets, purses, hats, belts and similar items.

These products simply do not in any way relate to the acts, policies or practices covered in the USTR's report of March 22nd, 2018.

These are low-tech, or dumb, products, which do not involve the sharing of U.S. research and development or intellectual property rights with Chinese producers.

These products are not produced in any of the 10 sectors identified and made in China's 2025 initiative.

Our industry will be disproportionately harmed by the imposition of these additional tariffs. The U.S. retail industry for accessories is already under financial stress as sales have been down to flat for the last two years and many of our larger retailers have consolidated or closed locations.

An additional tariff on these goods would result in further contraction. A significant number of the council's members consist of startup businesses as well as companies that have been in operation for less than five years.

These small and medium-sized businesses will be severely impacted by this action. Moreover, many of the council's companies have annual sales of $2 million or less, are led by women and minority-owned businesses.

These businesses have limited financial resources and do not have the budgets to find alternative manufacturing sources, let alone switch production in a timely manner that could potentially minimize the impact of this action.

Many of our members have entered into licensing agreements with leading brand names.

These agreements typically incorporate guaranteed minimum royalties, clauses that require the licensee to pay a minimum royalty even if the licensee's sales did not cover the minimum.

It is anticipated that many companies will no longer be able to meet these minimums due to decreased sales resulting from the tariffs. However, the licensees will continue to be bound by these clauses in a higher per unit cost of goods.

If the additional tariff takes place in the third or fourth quarter this year, it will greatly impact our holiday deliveries.

For most of the affected goods, holiday sales represent the most important time of year when the bulk of the goods are shipped and sold in the United States.

Many members sell to the U.S. value retailers and off-price stores. A tariff increase would dramatically impact the already slim margin on these goods. Many of these products are already subject to high duty rates and the tariff could raise the effective duty rate, again, between 34 to 45 percent of the value of the goods.

Moreover, the vast majority of our members' products produced in China are intended for middle to lower income consumers who will be directly impacted by price increases resulting from these tariffs.

The average retail prices of these goods range from $10 to $100. The effect on businesses and consumers will be dramatic as it's estimated the long-term impact of these tariffs could result in a 50 percent reduction in sales.

China possesses an experienced manufacturing industry for these products with the capacity to meet the demands of the U.S. market.

Significantly, there are no other alternative manufacturing locations that can compete with or replace China with respect to accessories production.

For example, I have been working

extensively in India for the last three and a half years regarding leather sourcing for bags and small accessory items.

We anticipate that certain other countries as India will be eventually an alternative to China for leather.

However, they do not yet possess the resources, trained workforce, infrastructure, or capability to absorb the volume of product currently produced in China at the same quality and competitive prices.

Finally, there are no U.S. manufacturing alternatives for these goods.

CHAIR BUSIS: Ms. Giberson, could you please finish up, as your time has expired?

MS. GIBERSON: Yeah. The only other comment I would make is that we are subject to many testing regulations to assure our products meet consumer safety standards and factories outside are not - are not prepared.

MR. BISHOP: Thank you, Ms. Giberson.

Our next witness is Dave Kiersznowski

with DEMDACO. Mr. Kiersznowski, you have five minutes.

MR. KIERSZNOWSKI: Thank you, Chairman, and members of the committee.

My name is David Kiersznowski. My wife, Demi, and I founded DEMDACO, a Leawood, Kansas-based gift company, 27 years ago. I am accompanied today by Ms. Melanie Miller, global supply chain director for DEMDACO.

DEMDACO employs 168 people in the United States and supports a sales force of 74 people who work only for DEMDACO through a third-party sales organization.

We have offices in three states and showrooms in three other states and strive to improve the quality of life in communities where we do business and elsewhere as part of our company mission.

I am here to request the removal of HTS Code 6810.99.00, encompassing articles of cement, of concrete or artificial stone from the proposed tariff list. This code impacts a significant number of DEMDACO products.

Placing a tariff on these products will not benefit the strategic interests of the U.S. or China but could pose a serious threat to DEMDACO's employees, its many business partners, those who buy and receive our products, and the communities we serve.

Principally, DEMDACO designs, produces, sells and distributes a selection of artisan works for home decor, entertaining, fashion, baby, holidays and the outdoors.

These giftable products can be found in more than 14,000 gift shops around the world including 76 percent of all Hallmark stores and hospital gift shops, even here in D.C. at the Walter Reed National Military Medical Center flower shop and the Army and Air Force Exchange Service.

We strive to lift the spirit in consumers, in each other, and in the communities that we work in. It's something we take seriously and pursue each day to the best of our abilities.

DEMDACO products made in China consist of figurines, photo frames, ornaments, and other types of gifts and home decor. A significant portion of these products would be categorized under the HTS subheading as articles of artificial stone such that the tariffs would affect approximately half of our annual sales and critically reduce profits.

These products are largely handmade, use no intellectual property and require very little technology or even electricity to produce.

Inclusion of this tariff category is overly broad and counterproductive. It will create negative consequences for American businesses like DEMDACO and do little to reduce the effect of China's acts, policies and practices concerning intellectual property or curb its industrial expansion in industries outlined in it's Made in China 2025 initiative.

In fact, this type of artisanal production is the exact opposite of what China seeks to promote through its 2025 initiative.

The manually intensive process of producing these items requires highly-trained skilled artisans and a workforce infrastructure that is not readily available or feasible outside of China, including the United States.

Investments made by DEMDACO and other importers have created an efficient and difficult to replicate production ecosystem built to produce specialized goods at the scale demanded by U.S. and foreign consumers.

The financial effect of this tariff increase could also limit our ability to sustain the high-quality jobs we provide U.S. citizens, inhibit local economic growth and reduce the ways our company gives back to the community.

Our business is not simply a financial endeavor. It's first and foremost a human endeavor. During the past 10 years, DEMDACO and my family have been deeply blessed with the ability to provide considerable charitable support to organizations that do good work for others - support that's made possible in part from the competitive advantage DEMDACO enjoys while operating in the U.S.

Additionally, many of our customers are brick and mortar mom-and-pop gift shops trying to navigate rapidly evolving retail changes.

Any tariff pass-through costs from DEMDACO could hurt them and our many other business partners up and down the supply chain, eventually affecting consumers directly.

Higher prices will likely result in lower sales volumes for DEMDACO and other small businesses like us, fueling a severe ripple effect that would be felt across other industries and sectors of the economy.

For example, DEMDACO spends nearly $4 million annually with ocean carriers, railways, small parcel delivery, trucking, and customs brokerage firms. They would all be impacted by the tariffs.

Also, if tariffs are set at 25 percent

they could affect our federal and state income tax receipts by upwards of $1 million.

The reality is that we are a small family-owned gift company that produces small figurines and angels that bring joy and comfort to people all around the world.

Our small gift products and the processes used to manufacture them currently pose no threat to the U.S. economy or its trade interests.

Placing businesses like DEMDACO at a financial disadvantage will not help to accomplish the strategic objectives of the tariffs.

Thank you for your time and for this opportunity to tell you about DEMDACO, a company that strives to lift the spirit of others through our work.

We welcome and appreciate suggestions on how to proceed with efforts to remove our products from the list of proposed tariffs.

Thank you.

MR. BISHOP: Thank you, Mr. Kiersznowski.

Our next witness is Stephen Lamar with the American Apparel & Footwear Association.

Mr. Lamar, you have five minutes.

MR. LAMAR: One of our member companies makes and imports this diaper bag, an everyday consumer product used by millions of young U.S. families that will be subject to the proposed 25 percent tax.

They can't just relocate the production of these products to factories outside of China for at least two reasons. First, they invest significant time and money with the factories to develop molds and other tools that are used to produce their products and that investment is not readily portable to another factory.

Second, their sourcing efforts are focused on China, and diversifying to other countries that have factories with the necessarily know-how and quality will take years.

Another member, who is appearing later today, makes this gray fabric in their own factory in China out of U.S. yarns. That fabric is then imported into the U.S. where it is manufactured into a variety of finished home textile products in their U.S.-based facilities and then sold throughout the U.S. and exported.

Not only does the proposal charge a 25 percent tax on their imports, a tax on a sale from one part of the company to another, but the U.S. tariff threats have triggered proposals by China to tax the U.S. yarn they buy.

They can't move the grey fabric production out of China because of the prohibitive cost and because they don't want to source a facility that is not their own.

These added taxes create a perverse incentive for them to move production out of the U.S. and buy non-U.S. yarns to stay competitive with suppliers in other countries who will not face these added costs, resulting in the elimination of 400 textile manufacturing jobs.

Another company, a manufacturer of magnetic fasteners in Connecticut, now faces several problems. The rare earth magnet components they use for fasteners made in the U.S. and sold to the automotive and medical industries can only be sourced in China.

So the extra 25 percent tariff on the magnetic components represents a direct and unavoidable tax on their U.S. manufacturing.

Their sister company makes snaps here in the U.S. that they then export to China for use in handbags and medical products that are assembled there. Most of the finished handbags and medical devices are brought back to the U.S.

The supply chain will now get hit twice. The proposed 25 percent tax on handbags leaves their customers scrambling to find cheaper alternative imports while the Chinese retaliatory 25 percent tax on the exports of snaps to China makes the companies' exports even more expensive to the handbag manufacturer.

And don't forget, these companies are

already facing higher U.S. costs under domestic steel purchases because of the inflationary impact from the 232 tariffs.

The strong incentive to retain customers and keep costs in check is to move production offshore. Most of the headwear purchased in the U.S. is imported and about 80 percent of these imports come from China.

No other country and certainly not the U.S. has the capacity to make the scope and variety of these products on a commercial scale.

This means that the 25 percent headwear tax would hit U.S. consumers in the form of higher prices.

Because China has such a dominant position in the market, a tax on imports from China will inevitably lead to higher prices from other countries as well.

Since headwear is often a discretionary purchase where consumers won't easily tolerate higher prices, this tax will likely fall hardest on the U.S. companies and their workers that make, market and import these products.

These are just four of the hundreds of examples we have heard from our members about how the proposed tariffs would harm them and their U.S. workers, consumers and communities.

Thank you for providing an opportunity for us to testify on behalf of these four companies and the more than 300 members of the American Apparel and Footwear Association.

My goals is to convey three key points this morning but we also intend to follow up with a longer statement for the record.

First, we strongly support your combined efforts to seek swift and meaningful resolution of the underlying disputes with China.

But as we have testified previously, tariffs on our legitimate intellectual property won't do this and will, perversely, leave the field open for those bad actors who do steal U.S. fashion IP through online counterfeiting.

Second, we are pleased the

administration did not include any items in Chapter 61 through 64 - wearing apparel, home textiles, and footwear - on this list.

We are strongly opposed to any effort to add these items. As an industry, we paid 51 percent of all of America's tariff receipts, even though we account for only 6 percent of all the items that are imported.

We are already heavily taxed and we cannot afford further costs that would arbitrarily - that would be arbitrarily imposed on our industry and on the American consumer.

Third, we are strongly opposed to any additional tariffs on the textiles, travel goods, hats, accessories and related product categories that we have included in Attachment A.

We ask that these lines be removed from consideration for tariffs. As noted in the examples above, an extra tax in these categories, many of which are already heavily taxed, would only hurt U.S. interests.

They would be a hidden tax on U.S.

consumers, especially on the many consumer products that are included, harm our U.S. manufacturing base, adding a tax to the basic tools that we use to make products in the U.S.A., tax U.S. global value chains and the millions of American workers they employ because China is the dominant or only source of these categories, and trigger continued retaliation by China, further eroding U.S. manufacturing opportunities by taxing U.S. exports.

In summary, we are truly pleased to see the administration has started a dialogue with China. Well, let's make sure this dialogue helps and does not come at the expense of U.S. workers, companies, consumers and communities.

Thanks for your consideration of these views and I'd be happy to take any questions.

MR. BISHOP: Thank you, Mr. Lamar.

Our next witness is David Mathison with Leather Miracles, LLC.

Mr. Mathison, you have five minutes.

MR. MATHISON: Thank you very much.

Thank you very much.

I am here to ask for the removal of the HTS Codes 4107.11.50 9401.90.50.

My partner and I started Leather Miracles in the year 2000. We employ 50 people -

MR. BISHOP: Could you pull your mic a little bit closer, please?

MR. MATHISON: - in Hickory, North Carolina, which is the home of the furniture industry in the South.

Our company was built on the idea of exporting U.S. hides to China to make product that we used to make in our former company that was closed in the first part of the year 2000.

The company's success was based on using high-quality U.S. rawhides in turn to produce high-quality furniture leather.

However, due to the changing times and business landscape, leather manufacturing in the United States is virtually nonexistent.

These same hides represent 31 million that are exported annually out of the United

States and this is a fact, not rhetoric is that this is one of the few places where you can clearly see that the U.S. has an advantage in its trading relationship with China because China has not standing herd and depends greatly on U.S. raw material as well as raw material found in South America.

Producing leather in the United States is still an option but - is still not an option so these hides are going to China and then we partner with Chinese tanneries to make products to our specification, which are all handcrafted leathers.

These are not made by machines. They are made by people, and this is an idea that was built at the Lackawanna Leather Company, which was in existence for over a hundred years making leather by hand, and it can't be done anywhere else in the world or we'd be doing it there, and the labor force in China has adapted to some very high-quality specifications and have made scores of U.S. furniture manufacturers a lot of profitable upper end business.

And today, we see more and more of these factories - furniture factories going out of business and without products like this, the one specified - hand crafting - it leaves for more chances for them to be leaving our customer base.

I want to point out that the Chinese import about - they are in the top five but they are woefully behind some of the much larger importers of upholstery leather, and when I mention these numbers is that Italy dwarves the number coming from China. Brazil does as well.

Mexico used to, and a little country like Uruguay, and how this affects us it almost affects Leather Miracles exclusively because there are very few companies like us that import upholstery leather from China and we have almost been singled out exclusively in this tariff in the leather category.

And so it seems terribly unfair, given the fact that there is no leather upholstery business in the U.S. anymore - none. And if any one of you have been to a leather tannery lately - a whole hide leather tannery - please let me know. I would like to represent them.

I appreciate the opportunity to be here and I would like to think that these are not punitive or just arbitrary. But our category seems to be like it was swept up into this crisis for no explicable reason.

Thank you for your time.

MR. BISHOP: Thank you, Mr. Mathison.

Our final witness on this panel is Stephen Lang with the American Bridal & Prom Industry Association, Incorporated.

Mr. Lang, you have five minutes.

MR. LANG: Thank you for this opportunity. I am the president of the American Bridal & Prom Industry Association, a nonprofit national trade association comprised of hundreds of members at every level of the formal industry - designers, manufacturers, retailers, and so forth.

These entities employ thousands of individuals throughout our nation. Our goals are simple - one, to take any and all appropriate lawful action against the marketing and sale of counterfeit formalwear products.

In the last five years, working with several senators, we have taken 25 million images off the internet and closed 2,500 websites.

The only industry - we are second to only one industry in the United States and that's the recording and motion picture industry in closing counterfeiters.

Counterfeiters is a billion-dollar industry worldwide, about $400 million of which - $400 billion of which hit the United States, much greater than the duties and tariffs we are talking about here today.

The recent issues about counterfeiting from China and now these duties coming from China, we are lucky that the 6204 category has not been identified.

But the sheer fact - and I am going to

off print here - you've got my statement - is that we can't make wedding gowns and prom dresses in the United States.

Nobody wants to do this work, and the reason it went offshore 30 years ago is the increasingly difficult issue of trying to make dresses for people with all the thousands of hand-sewn beads they want and not have to pay $10,000.

So the industry started to bleed and go offshore. We started 807. We tried everything possible. You can't make wedding gowns in the United States and prices have actually dropped for wedding apparel over the last 30 years.

I've made 64 trips to China in 30 years. There is every factor you can imagine I've been in. It is impossible. We can't even get the materials in this country to make this clothing.

And the issue here at hand is to China, their labor is like oil to the rest of the world. They own a lot of oil, even though there is a labor shortage there.

You can't suddenly turn around and hit the United States consumer with a 25 percent tax and expect that not to upset the food cart.

I already pay more in duties and taxes to the United States government than I profit myself.

I pay over $3 million a year in duties to the United States and I can't possibly throw 25 percent on top of that, which would run our duties up anywhere to 41 to 53 percent. Some of our categories are already 28 percent duty.

I am already working till Thursday morning for the government and not for myself or my partners and my 100 employees.

So I think some of the intent of what this administration wants to do is bittersweet and it's correct. I've been fighting this war for five years on anti-counterfeiting with almost no help from the government.

I do it myself with eight federal

lawsuits and then working together with Senators Booker, Menendez, Hatch and Schumer's office to finally get some traction on people that would listen.

Yet, I turn around and my own government now is going to try to put some of my peers out of business if this hits our category. It's unconscionable.

I started my company in 1991. We sell to 75 countries. I employ lots of people. We will do $100 million this year.

Even my bank, who's been with me for 10 years - Chase - we just had to change banks because they are afraid of the pending 25 percent royalties - duties that are coming - tariffs - and they were afraid that we would be a bad risk, and we will be if these tariffs go into place.

I should not be put out of business because of an ill-placed attempt to balance the books between these two countries. There are other ways to negotiate and bring people to heel other than putting good people, as you see sitting here, out of business and that's exactly what's going to happen to our industry if we are hit by these tariffs in the future.

And I can tell you very frankly many of these people are telling you the truth. You cannot make these goods in the United States.

I can't find people that will do hand beading. I can't make goods in Mexico. In our industry, $50 billion worth of volume comes out of China in terms of clothing - in Vietnam, $8 billion; Indonesia, less than $4 billion; India, less than $4 billion; Italy, $1.8 billion. If there were options to go outside of China, the entire world would.

What we need to have done here you cannot - China's the only place in town, and if they have the oil in the world - they have the labor - how could the American consumer afford to pay 40 percent taxes on top of oil? There would be mutinies. You're going to see a lot of people go out of business if these duties and tariffs are put into place.

I thank you very much for listening. I went off script, but I think it's more important that you hear it from the heart. A lot of people are going to get hurt.

Thank you for listening and I appreciate taking time to hear my spiel.

MR. BISHOP: Thank you, Mr. Lang.

Mr. Chairman, that concludes direct testimony from this panel.

CHAIR BUSIS: Okay. Panel, thank you for your excellent testimony. We will take a 15-second break and we will start our questions.

[Pause.]

MR. MITCHELL: This is a question for Mr. Bishop. Who are your competitors in the high-end segment of your product? Do any of them include Chinese firms?

MR. ROSS BISHOP: They are - all my competitors in the aviation flight bag industry are companies like Jeppesen and ASA and these companies are all making products that range from $39 to $79.

There is nobody making a bag that's average price is close to $200 in my industry or in my next industry, which is going to be the range bag market.

So there are no American companies doing what I do.

MR. STEPHENS: This is a question for Mr. Day. You described some of the factors that affect your ability to source outside of China.

Can you describe efforts that you've taken to review other potential suppliers outside of China?

MR. DAY: We, in fact, do import from manufacturers outside of China. However, the quality and their capacity to achieve what we need to meet the market needs is not there.

MS. BONNER: This question is for Ms. Mash. Could you help us by characterizing by the U.S. value added in your products that you import to the U.S.? Is there U.S. content?

MS. MASH: I am sorry. Can you specify by - when you say value added?

MS. BONNER: What sort of jobs are being supported here in the U.S.? What sort of categories? What are - is there IT? Is there -

MS. MASH: Sure. Sure.

So our product doesn't require IP. It's very hard to, you know, protect fashion. In terms of the size of our company, we are 14 today. We intend to be 24 next year.

Beyond just our own team, though, there are many retailers both large and small that we directly impact and we are truly the future of, you know, particular retailers handbag floors.

Additionally, we are in a handful - we are in about seven different retailers today. We intend to be in many more next year and things are in place for that as well.

So this is not something that just impacts us and just our customers but it's a whole chain of different retailers and consumers internationally as well.

CHAIR BUSIS: Follow up - I think you

said that you believe tariff on Chinese handbags would reduce U.S. exports.

MS. MASH: Yes.

CHAIR BUSIS: Could you explain how that would occur?

MS. MASH: Yes. So our distribution is based here in the U.S. Given that we are digitally native brand founded in the U.S. and mostly focus on domestically sales, everything is imported to the U.S. before it gets sent out to other countries.

We also ship internationally from our own website and we have plans for international expansion in particular next year.

But this year we are also shipping everywhere.

MR. JACKSON: This question is for Ms. Giberson. You noted in your testimony that China is the dominant supplier for the products that are imported by your member companies.

Have you noticed any shift in production out of China in recent years, for example, as the result of the addition of travel goods to eligibility under the generalized system of preferences?

MS. GIBERSON: I think there has been a curiosity in diversifying the supply chain. What I've seen firsthand is it's very difficult, particular in nonleather nylon bags, bags that are made of nonleather products.

Even in other countries they are not as set up to make the quality, the quantity or have the right certifications to assure that workers' rights are protected and that the environment is protected along the way.

So we are - you know, we are always looking for new places but we don't have a lot of great options.

MS. PETTIS: Here's a question for Mr. Kiersznowski. Pardon me. Oh sorry.

This is for Mr. Lamar of the American Apparel & Footwear Association. Is there any product area in which AAFA believes higher tariffs on imports from China might improve U.S.

competitiveness?

MR. LAMAR: Absolutely not.

MS. PETTIS: Quick response.

MR. LAMAR: I can elaborate if you want. But for purposes of time, absolutely not.

As I pointed out, we already pay a lot of tariffs. I mean, we import 6 percent of the goods.

We pay 51 percent of the tariffs that are collected and a lot of our members make the same comments that Mr. Lang made, which is they - you know, they are working until Wednesday/Thursday for the government in terms of tariffs before they start then being able to return a profit themselves.

I mean, the tariff burden we face is already extraordinarily high. Adding a 25 percent tariff on top of that would be unconscionable.

MR. MITCHELL: This is a question for Mr. Mathison. Could you clarify the nature of the U.S. value added in the products that you import and sell in the United States? That is, what part of it is U.S. content?

MR. MATHISON: I am going to get the hang of this pretty soon.

The hides that are used that represents over 50 percent of the cost - easily over 50 percent of the cost, and it is what makes the leather more valuable to our customers because this type of volume they are much better quality than hides found in South America and the added value is obvious because they yield better and better quality leathers can be made from raw material.

MR. MITCHELL: You had mentioned some other countries that supply including Italy, Brazil and Uruguay. Could you compare what percentage of that is U.S. content versus content from those other suppliers.

MR. MATHISON: Most of the content would be from South American racehorses but in - as it relates to upholstery leather, it could be South America, any number of places. But the two largest producers are Brazil and Argentina.

Another source of the raw material could be Australia. But Brazil has the largest standing herd in the world and most of it comes from there.

MR. MITCHELL: Thank you, sir.

CHAIR BUSIS: A follow-up question is would it be an option if the importing finished leather from China was more expensive to use the tanning capacity in these other countries in Uruguay or Brazil to tan the U.S. hides?

MR. MATHISON: One of the - I think, you know, the theme it repeats itself with every speaker, but the quality of the workmanship, the labor, in China is better than anyplace else in the world.

We do business in other countries beyond China. We buy a lot of and bring a lot of leather from Italy. We bring a lot of leather from Brazil. We bring a lot of leather from places like India. But we have looked in many different places to make the handcrafted leathers that I mentioned earlier.

But Chinese labor is way better and there is no comparison, and I would say if I was going to put together a team of labor it would - first, second, third, fourth and fifth choice would be China and nowhere else.

MR. LANG: If I could add a comment to that. A lot of factories that go outside of China - Vietnam and so forth - they bring in Chinese management because the domestic people in some of those other countries can't run the factories.

They have to actually bring in Chinese technicians to show them how to make the products.

MR. SULEWSKI: Good morning this question is for Mr. Lang. As I understand it, dresses and other apparel have already been excluded from the lists of products subject to the additional duties.

Are there other products on the list that are of concern to you?

MR. LANG: Well, my industry is really just dresses. That's really all we make - prom dresses, Quinceanera, wedding dresses. So that's my prime focus.

But I can see the potential damage to our economy as this has spread to more clothing categories because it's not high technology. It's so labor driven that - you know, my focus is the area that I know.

But I have sympathies for other people who are facing, you know, grave prospects of what it does to their supply chain and to their economics.

MR. SULBY: Last question is for Mr. Kiersznowski from DEMDACO. In your testimony you note that China is seeking to move away from production of these types of products.

Does this suggest that despite whatever we end up doing as part of this review that market forces will eliminate China as a source of supply for these products?

MR. KIERSZNOWSKI: Thank you for the

question. I don't believe that it will result in that. What's happening is that our factories are being asked to move further and further inland in China so that the governments can have the coastal properties for high tech.

China doesn't really like the type of manufacturing that we do because it is very low tech, very labor intensive, very artisanal.

So but the factories that make it we have tried to source in Thailand. We have tried to source in Philippines.

We have tried to source in Sri Lanka, and nobody has the ecosystem to produce the quantities or the qualities that we need.

So I think while it will remain in China, it will move further and further inland over time. All of our factories are being asked to move to make room for high-tech manufacturing along the coast.

MR. LANG: Mr. Chairman, may I add one comment - final comment?

CHAIR BUSIS: Yes.

MR. LANG: Because we have been so involved for five years with fighting counterfeiting, this is the clear and present danger that doesn't - it flies below the radar.

I could very easily put up a warehouse in Hong Kong and ship all over the world to the 75 countries I sell to right now and not pay a single penny in duties.

Why do I say this? Because our government cannot track all the packages coming in to this country that are sent in as gifts.

I could very easily send right to my consumers. I'd make a lot more money, never bring the goods into the United States, never use the freight companies, never use all the facilities who I pay millions of dollars to, and everybody would lose.

Furthermore, China is still going to sell to other countries - into Spain, into Italy, into - all over Europe, South America.

Those people who have established wedding gown companies, for example, could very easily put the U.S. companies out of business by doing a little bit of value added and shipping it as made in their country and we wouldn't have the auspices to check it in this country.

I have spent so much time in Washington with different departments, some of your departments. We are like a sieve in this country. There are millions of packages coming in.

What's very insolent is for somebody who makes a widget in Shanghai, ships it to Hong Kong, ships it directly to a consumer for 75 cents and our post office picks it up in California and delivers it through reciprocity with no duties paid.

If I brought a button into this country or let alone a garment mislabeled, the duties - the penalty fees start at $50,000. It's a comedy of errors, the - some of the obstacles we face and many people aren't aware of it.

But to us, we are front seat to this. This counterfeiting situation is only going to get worse. If these tariffs go in place, these counterfeiters will see greater opportunity to steal from the Americans and we don't have the horsepower. Customs does not have the horsepower to stop it.

We are actually going to make a bigger hurdle for ourselves to overcome the billions of dollars in counterfeit products that come into this country every day.

CHAIR BUSIS: Thank you, Mr. Lang.

This concludes our Panel 1. Thank you.

MR. BISHOP: We release this panel with our thanks and we invite the members of Panel 2 to please come forward and be seated, and we ask that the members of Panel 3 please come forward to the witness holding area.

Will the room please come to order? Madam Chairman, our first witness on this Panel is William Alexander with 5N Plus Semiconductors. Mr. Alexander, you have five minutes.

MR. ALEXANDER: Mr. Chairman and

Members of the Committee, I'm William Broxton Alexander, senior director of corporate development and innovation management for 5N Plus Semiconductors, LLC.

I'm here to request the removal of unwrought germanium imported from China and classified under the harmonized tariff schedule of the United States, subheading 8112.92.60, on the list of products that would be subject to a proposed 25 percent tariff.

In addition, germanium is also subject to regular duties at the rate of 2.6 percent. Cumulatively, a significant higher tariff of almost 28 percent would trigger national security and other significant consequences.

For this and other reasons I will discuss, ready and unabated access to this critical raw material should be a key factor to the USTR's final determination.

As a background, 5N is a wholly owned subsidiary of 5N Plus Incorporated. Our primary manufacturing facility is located in St. George, Utah.

Over the past seven years, our company has made substantial investments in capital equipment and building improvements among other projects. 5N is a leading U.S. producer of semiconductor wafers for solar cells used to power satellites.

While 5N produces the semiconductor wafers for both defense and commercial applications, the U.S. government is the largest end user. 5N is the sole U.S. domestic space qualified supplier of these articles to national security space customers.

In 2012, 5N made a significant investment in a government funded project to develop the supply chain for germanium substrates for satellite. Customers including the U.S. Air Force and Space Missile System Center.

In 2012, the Defense Logistics Agency awarded 5N a contract to produce and store germanium substrates. This space critical technology working group has identified germanium substrates as a concern for national security space.

In addition, 5N is the only, one of only two, and the only U.S., national defense stockpile qualified germanium wafer supplier worldwide. By way of background, the DLA awarded a contract to 5N in January of this year making our company the sole provider and manager of this strategic stockpile.

Pursuant to that contract, 5N is responsible for upgrading a portion of the existing high purity germanium inventory, to include unfinished germanium wafers. Which are needed for various national security space applications.

5N also produces germanium wafers for use in commercial space satellites such as those used for scientific research or telecommunications.

For a number of years, there have been no germanium mines operating to scale in the United States. To support its U.S. manufacturing operations, 5N sources unwrought germanium from China.

It is important to note that China produces and supplies the majority of the global germanium market needs. In 2017, China produced more than 65 percent of the worlds totaled refined germanium of which the United States acquired 20 percent of that amount.

While there are sources outside of China, even in the aggregate, those sources in Europe and Canada do not have the capacity to produce the level of germanium required by 5N or the U.S. governments national security stockpile.

Additionally, these foreign suppliers sell germanium primarily to 5N's main competitor, who is headquartered in Europe. Even then our European competitor is not able to satisfy its total germanium needs relying solely on European sources. Rather, our competitor also sources a significant amount of this critical raw material from China.

Due to the unavailability of purified

germanium outside China, the proposed 25 percent tariff would severely impact 5Ns ability to manufacture germanium wafers in the United States. As a result, the high tariff would seriously threat not only the U.S. Governments national defense stockpile, but also, its commercial contracts for government wafers.

Further, 5N's long-term contract with the DLA is subject to a best price requirement. Meaning, that the contract will not allow flexibility in sourcing or pricing.

Saddled with an added 25 percent tariff 5N could not compete against this European competitor who would not be subject to the significant added cost.

5N does not believe the intent of the Section 301 tariff is to harm a U.S. producer and bestow on our foreign competitor the opportunity to reduce our hard-won U.S. market share and undercut our pricing. Perhaps a more effective tariff would be to penalize on the finished product, the finished wafers, coming from Europe or China.

Competitive pricing is key in the satellite industry as the margins are very slim. Those circumstances, plus the opposition of a 25 percent tariff, would pose severe economic hardship to the company and ultimately to its U.S. employees and U.S. manufacturing operations.

In summary, 5N manufactures germanium into semiconductor wafers in the United States for use on satellites and solar panels for mostly U.S. Defense projects and systems. For 5N to remain competitive and continue its operations unabated, the company must have access to a reliable source of consistently produced high purity germanium.

With no such U.S. or foreign sources or mines for this raw material, placing a 25 percent tariff on Chinese sourced germanium could have a severe national security implications as well as negative commercial repercussions.

Further, the additional costs would have adverse impact on 5N's ability to compete in the United States against its foreign competitor. Accordingly, 5N respectfully requests the removal of unwrought germanium from the annex to the STR notices. Thank you for your attention, I'll welcome any questions you may have.

MR. BISHOP: Thank you, Mr. Alexander. Our next witness is Tom Cove with the Sports and Fitness Industry Association. Mr. Cove, you have five minutes.

MR. COVE: Thank you. I am the president and CEO of the Sports and Fitness Industry Association. Our members include more than 300 companies, 750 brands who manufacture and sell sports and fitness products.

We were started in 1906. We have a global economic, our members have a global impact, estimated at more than $75 billion annually.

SFIA supports President Trump's objectives regarding China's compliance with international intellectual property laws. However, we strongly opposed the proposed tariffs, which will disrupt business models and cause lasting economic harm to American sports companies and to the millions of American consumers who look to play sports and be active every day.

Specific to this morning, 20 companies will be participating in 35 SFIA petitions requesting relief from the proposed tariffs on ball caps, sports bags, backpacks, baseball, softball, hockey, lacrosse gloves, batting gloves, golf bags. We also oppose increased tariffs on components, like fitness equipment generators, face masks and chin straps.

It's worth noting that these components are used in manufacturing of high end fitness equipment and critical sports protective gear, in American factories and facilities.

So all these products require specific production facilities and at present, there is not sufficient capacity outside of China to accommodate our member's needs. Domestic manufacturing in the industry is very small, generally not cost effective.

Our members have taken steps to diversify sourcing and we commend USTR for expanding programs like GSB to encourage sourcing outside of China, thank you. But it can take, and we're learning it can take, years to find alternative production options, train workforce, develop infrastructure and build a retrofit manufacturing facilities.

As of now, China remains a vital and not easily replaceable link in our industry supply chain. Shifting manufacturing to other countries is simply not feasible in real time or at scale.

I'll take a moment just to talk about tariffs causing higher prices in our industry. Specific issue for the sports industry.

We make products that make people physically active, healthy. According to CDC, the average per capita health care spending for inactive American is $1,437 more than for an active American.

So it makes no sense to drive up the price of products that otherwise contribute to lowering the national expenditure on health care, which we know is a national priority.

And we also know, from our business, the youth sports in American today are increasingly expensive. And those of you who have children know, travel, sports and all that sort of thing.

Research from the University of Michigan's Children Hospital identified cost as a special barrier to sports participation. So let me give one example relevant to this hearing.

These tariffs would raise the cost of a plastic youth baseball glove. That's the kind of glove that's basic, it's low end, it's designed for a young child when she or he is starting to play ball.

Adding an additional ten, 25 percent tariff to the cost of such a glove would only raise the cost barrier. We want to encourage young kids to play and this moves us in the wrong direction.

We do believe that China should be held accountable to uphold intellectual property rights. But as was mentioned earlier, tariffs on our products may have the unintended and perverse effect of harming business partners of U.S. companies while incentivizing counterfeiters and other criminal enterprises who don't play by the rules.

Our companies, our American companies, have invested significant time, money and personal capital to establish viable business relationships with reputable Chinese manufacturers. They work to ensure IP protections, labor rights and other business practices are built into their agreements and supply chain operations.

Counterfeiters and criminal syndicates, by definition, avoid legitimate business relationships and do everything they can to smuggle outside official channels. They don't and won't pay tariffs.

The impact of these tariffs then will be to harm those who follow the law and who work cooperatively with American companies and agencies, but not at all reach the root of the problem.

So we do have a serious challenge protecting our trademarks, designs, and brands and, again, we thank you for your interests in supporting that, but we believe we should target punitive actions against those with the greatest disregard for intellectual property laws. We believe in the multilateral approach.

And at the policy level SFIA encourages the administration to work with our trading partners to build an international coalition to contest China's intellectual property rights policies at the WTO.

China is a formidable global manufacturing source and our members have invested significant time and resources developing a supply chain using Chinese capacity. Many SFIA members will not survive an extended period of higher tariffs long enough to find sourcing options outside of China.

This is especially true for small and medium sized enterprises. Our biggest brands, the Nike's, et cetera, they're out there, they can handle a lot of this. It will hurt the small and medium size folks the most when they have to shift in such fast and sort of unintended plan.

So, with that, we thank you. I know my time is up, but thank you for the opportunity to appear, happy to answer any questions.

MR. BISHOP: Thank you, Mr. Davis. I'm sorry, Mr. Cove.

Our next witness is Jonathan Davis with SEMI. Mr. Davis, you have five minutes.

MR. DAVIS: Well, thank you very much for the opportunity to present testimony today. My name is Jonathan Davis and I'm the global vice president for industry advocacy at SEMI, the global electronics manufacturing industry association.

With more than 2,000 member companies

worldwide, including more than 400 American companies, SEMI represents the full range of U.S. semiconductor technology. Including chip designers, equipment makers, materials producers and subcomponent suppliers.

Our member companies are the foundation of the $1.5 trillion electronics industry. And the vital supply chain employees 350,000 high skilled, high waged jobs across the united states.

Semiconductors are essentially the brains of all electronic systems making possible countless products on which we rely for business, communication, transportation, health care, entertainment and virtually all activities of modern human endeavor, and I'm guessing an increasing amount of fitness products as well.

These products have boosted economic growth and enhanced productivity. And with the advent of emerging technologies, such as artificial intelligence, autonomous driving and the internet of things ecosystem, this industry will continue to be central to U.S. growth and prosperity.

All of this is enabled by sophisticated intellectual property. And SEMI supports efforts to better protect our valuable IP.

U.S. is a global leader in semiconductor manufacturing technology holding more than 40 percent of the global producer share, U.S. companies in this sector export on average more than 80 percent of what is produced domestically. As a result, the United States has long held a trade surplus on semiconductor equipment.

And trade has ensured that the United States has remained a global leader in the semiconductor industry.

In this industry, trade and innovation are intrinsically intertwined by allowing companies to better tap into foreign markets and suppliers, trade has enabled greater research and development. Which fuels innovation and growth.

Indeed, to change either effects the other. Without trade opportunities, innovations dries up. And without innovation, opportunities to export slows.

With that in mind, we believe that the imposition of 25 percent tariffs could be extremely harmful to the U.S. semiconductor manufacturing supply chain. Nearly 100 total tariff lines in the proposed Section 301 tariff list, directly impact the semiconductor supply chain.

These tariff lines include products that effectively enable the industry and we request that these tariff lines be removed from the proposed Section 301 action.

Estimates from our U.S. based companies suggest that these tariffs, if implemented as proposed, will cost millions of dollars annually in additional taxes and lost revenue, owing to reduced exports.

We also worry that these tariffs will impact U.S. competitiveness. The net impact of the straight action will be that non-U.S. firms receive an advantage.

Further, these tariffs impact many items that are not widely available in terms of quality and cost, from domestic sources, as well as foreign non-Chinese sources. Companies in our industry rely on certain products that are produced, often by U.S. companies and China.

Companies in the semiconductor supply chain have spent years developing cost effective and highly qualified suppliers across the globe. Our tools are extremely complex, precise and difficult to manufacture.

And it's not reasonable to simply replace a component that we have systematically designed into our tool with a component from another source. This action will stifle innovation, endanger U.S. leadership in a sector and put thousands of U.S. jobs at risk.

We also believe that this will threaten future growth and it will not solve our legitimate longstanding concerns with China. Of course, this is on top of other tariffs which are in force or under consideration.

In closing, we support efforts to ensure that we compete on a level playing field. We can't simply cut off our ability to tap into foreign markets however.

Trade is critically important to the continued success of the semiconductor industry. These tariffs will inflict unintended damage, stifle American innovation, increase prices, threaten longstanding U.S. leadership and a critical technology capability and also threaten thousands of U.S. jobs. I look forward to answering your questions and I thank you.

MR. BISHOP: Thank you, Mr. Davis. Our next witness is Jen Harned with Bell Sports, Incorporated. Ms. Harned, you have five minutes.

MR. HARNED: Good morning. My name is Jennifer Harned, I am the president and general manager of Bell Sports, Inc., a subsidiary of Vista Outdoor, Inc.

Our other brands include Giro, Bolle,

Cebe, Blackburn, Co-Pilot, Raskullz, and Krash. Collectively, we are designers, producers and sellers of a variety of consumer products that provide motorcycle, bicycle, skateboard, skiing and snow board consumers with a safe and comfortable riding experience.

We employee over 500 people in the United States with a quarter of that workforce located in our foreign trade zone in Rantoul, Illinois.

The products included on the proposed tariff list capture our entire line of helmets, including the padding, fit systems and straps, we use to assembly helmets like this in the United States.

The list also includes other bicycle safety products, such as lights, mirrors and child and pet trailers, and maintenance products such as hand and foot pumps, saddles, inner tubes and tires and pedals.

The appendix to my testimony will provide a comprehensive list of our impacted products and their corresponding harmonized tariff system subheadings.

The premise of the proposed ten to 25 percent tariffs on these products is that it will incentivize China to change its discriminatory practices. However, the tariff on these products will have no impact on China's behavior because these products are not the high technology products China is targeting with its Made in China 2025 program.

In reality, these tariffs will have to be passed along to consumers in the form of retail price increases, ultimately jeopardizing the safety of ordinary Americans.

Because consumer behavior is dictated by price. And if faced with higher prices, we fear the nation's bicyclists, motorcyclists, skateboarders, skiers, snow boarders and the parents of participants in these activities will choose to use formerly owed, damaged or inferior products.

If prices go up, perhaps someone rides

their bike on bald tires and gets in an accident as a result or does not replace their helmet after an impact, as they should. Even worse, we fear consumers could forego utilizing these products all together.

Choosing to ignore safety laws, perhaps by not buying a bike light and getting hit by a car because a driver does not see them. Or not wearing a helmet and dying from an impact to their skull.

Many of our products are sold through retail outlets to price sensitive consumers. We are always in pursuit of the highest quality at the most competitive production costs possible in order to meet these retail pricing requirements.

To date, we have yet to find an alternative location that provides the infrastructure, the know-how, and the cost structure making it a viable option to China.

Further, many of our products are required to pass various state and/or federal certification standards in order to ensure the safety of consumers. Making production quality critical and the cost of moving production prohibitive.

If the cost to import our products from China were to increase ten to 25 fold, our ability to invest in U.S. jobs, our Rantoul operation, and the research and development designed to enhance consumer safety and consumer experiences will be annihilated.

We are the company who made kids want to wear helmets by embracing the 3D trend. After all, who isn't cool in a mohawk.

Simply put, maintenance of bicycles saves lives. Bicycle mirrors, lights and child trailers saves lives and helmets of all kinds saves lives.

We have extensive communication from users of our products demonstrating these facts. As one person recently shared with us, I sustained a fractured left arm, a shattered pelvis, a broken fibula in my right leg along with assorted internal traumas. The doctors and nurses were amazed that I was able to escape with my head completely unscathed and I give all the credit to your company.

Behind the representatives from Labor and SBA, our examples of helmets that have saved people's lives. I ask that you pass them around and see, for yourself, what these do.

We applaud the administration's efforts to address China's discriminatory practices towards intellectual property rights. However, we do not believe these tariffs on these products for which there are limited opportunities to source outside of China, will influence China's behavior.

Further, we have serious concerns this could incentivize our current Chinese manufacturers, who today, do not sell directly to American consumers. To begin to do so, as a result of a deterioration in our volumes, further eroding sales of American businesses.

We implore you to remove helmets and bicycle safety and accessory products from the proposed tariff list. Our written comments to be submitted prior to September 6th will provide substantial detail of the implications of the proposed 301 tariffs, on our products.

We thank you for listening to our concerns and appreciate your consideration of our requests.

MR. BISHOP: Thank you, Ms. Harned. Our next witness is Bob Margevicius with the Bicycle Suppliers Association and Specialized Bicycle Components. Mr. Margevicius, you have five minutes.

MR. MARGEVICIUS: Do you remember how exciting it was when you got your first bicycle?

Do you remember that day you could hop on, you could ride to the convenience store, get a candy bar, you could visit your friends, you could go to the park and enjoy some time together?

It was much more than just metal and two wheels, it was a source of freedom and an entry point into adulthood. For many who can't afford the expense of a bike, of a car, it was their primary source of transportation. While for others, it's a prescription to a healthy life. This is at risk today.

JFK is credited with saying, nothing compares to the simple pleasure of riding a bicycle. Today I'm testifying to preserve this simple pleasure from becoming collateral damage in a trade dispute.

My name is Bob Margevicius. I'm executive vice president of Specialized Bicycle Components.

We're a California bicycle company that employees over 1,100 people here in the United States. We service independent retailers with Specialized branded bicycles and bicycle related products.

I also serve on the Board of Directors of the BPSA and chair the BPSA Safety Committee. The BPSA is a 501(c)(6) trade association committed to improving the business environment for companies that manufacture, assemble, produce or supply bicycles and bicycle products.

I'm here representing specialized, the bicycle industry and cyclists. There are an estimated 18 million bicycles sold in the year. Eclipsing the number of automobiles sold annually with more than 100 million in active use.

The proposed Section 301 tariffs apply to the categories of complete bicycles, bicycle components and bicycle safety accessories imported from China, into the United States.

So let's look at each of these three categories. Complete bicycles. Approximately 94 percent of the 18 million bicycles, or 15 million, are imported into the United States from China.

Annual bicycle imports from China are over $1.1 billion. With less than 500,000 bicycles assembled locally here in the United States.

Shifting to another country where manufacturing in the United States requires time, economies of scale, significant capital investment. On top of that, the potential additional 25 percent tariff on bicycle components makes this unthinkable.

Even a partial shift to another country would take years to implement as any one bicycle, much like an automobile, has over 200 unique components, with China being the major manufacturing cluster.

Bicycle components, second item. Over 300 million bicycle components are imported from China. This represents about 60 percent of the total bicycle imports, component imports.

It includes such things as tires, tubes, seats, handlebars, et cetera. All are essential for assembly repair, maintenance for the over 100 million bicycles in use, here in the United States.

There are no significant domestic production of these components. With the remaining 40 percent, are high valued performance oriented components from countries like Japan or Europe.

Bicycle safety accessories, third category. The majority of important bicycle safety accessories, like helmets, lights, baby trailers, about a hundred million are from China and on the Section 301 tariff list.

They serve to protect bicyclists from unforeseen situations today. Including distracted drivers.

There is no significant domestic production of bicycle safety accessories to scale. Supply sources from other countries provide high value performance oriented components.

The proposed additional 25 percent tariff on these three categories will have a catastrophic consequence for the bicycle market. Our industry supports tens of thousands of jobs --

CHAIR GRIMBALL: Mr. Margevicius, please conclude.

MR. MARGEVICIUS: What?

CHAIR GRIMBALL: Your time has

expired.

MR. MARGEVICIUS: Pardon me?

CHAIR GRIMBALL: Just please conclude, your time has expired.

MR. MARGEVICIUS: Oh. So, the request is for you, you hold the key to our children's future, healthier lives, who rely on bicycles as their mode of transportation. We trust you will take this into consideration in your decision.

And thank you for the opportunity to be here.

MR. BISHOP: Thank you, Mr. Margevicius. Our next witness is Matt Moore with the Quality Bicycle Products, Incorporated. Mr. Moore, you have five minutes.

MR. MOORE: Thank you, Chair and Committee Members. My name is Matt Moore, I'm the general council for Quality Bicycle Products.

We are the largest wholesale distributor of bicycle parts and accessories in the United States. We're actually a global company, as we export from the U.S. as well.

We were founded in 1986 in our owner's garage in response to the movement of bicycle manufacturing from the United States, specifically to Japan at that time. So our whole business model was to source repair parts for the bicycles being imported into the United States so that those were readily available.

Currently we have over 700 employees in four states with distribution centers in multiple states in the United States.

I also serve as the chair of the Legislative and Legal Monitoring Committee for the Bicycle Product Suppliers Association and work with government regulatory matters, especially with the Consumer Product Safety Commission.

I would also like to talk about bikes. I like to talk about bikes as often as I can. Everyone has a story, a memory of when they were a kid and took their first bike ride. But those memories are in jeopardy.

And the reason is, is that 97 percent

of children's bikes sold in the United States are imported from China. That is a huge volume of bicycles that represents about 80 percent of the total tariff achieved in bicycle categories.

Those bikes are already subject to an 11 percent tariff. Currently, many of those bikes are in production because many of them are sold at the holiday season.

It's going to be extremely difficult if prices change dramatically over the next few months for retailers to absorb that. And the results will be that prices will increase.

This will hit America's retailers of bicycles extremely hard. They will see lost sales, they will see parents deciding to buy some other gift for, at the holidays.

American's bicycle retailers, there have been some high-profile bankruptcies. Toys "R" Us was a big bicycle seller. They're no longer around.

America's retailers have struggled against foreign competition. Especially with imports that come in under the $800 de minimis amount.

So you can order a complete bicycle from China, it will show up at your door. What you won't get is a certificate that that product complies with CPSC standards for bicycles because that paperwork is not required for that type of entry.

The same is true of bicycle components, tires, tubes, helmets that are sold by online retailers located in other parts of the world, especially Europe but also China. That can ship to the United States with impunity, do not have to pay sales tax, income tax in the United States or any of the current duties that are levied on bicycle parts and accessories, which are generally ten percent and among the highest.

Technology. If you want to see the latest in bicycle technology you can go to the Smithsonian Museum, the Air and Space Museum and see a 1903 Wright brother's bicycle that is, in essence, what is being produced in China today. The same technology.

There aren't any semiconductor chips in the bicycles imported from China. They are very basic machines, much as they were developed in the 1890's. There isn't any technology theft by the Chinese manufacturers of those bikes, they're simply making them an affordable price.

Helmets. Helmets are extremely important piece of safety equipment. They were the first product that was regulated by the CPSC.

I'm speaking to you today because I was wearing a bicycle helmet when I was hit by a distracted driver three years ago. Although I suffered extensive injuries, I do most of my work above the shoulders and fortunately the helmet, which was designed in Belgian, made in China and sold by my company in Minnesota, did its job.

Twenty-two states, and the District of Columbia, require children to wear bicycle helmets. There should not be a 25 or ten percent duty on bicycle helmets, helmets should be duty free, as they are now.

I thank you for your consideration of my comments and I welcome any questions.

MR. BISHOP: Thank you, Mr. Moore. Our next witness is Patrick Cunnane with PeopleForBikes and the American Sports Enterprise. Mr. Cunnane, you have five minutes.

MR. CUNNANE: Thank you for allowing me to testify today.

(Off microphone comment)

MR. CUNNANE: Sure, how's that? Good?

(Off microphone comment)

MR. CUNNANE: Great. My name is Pat Cunnane, I'm the CEO of Advanced Sports Enterprises, the parent company of Performance Bicycle, the largest specialty bicycle retailer in the United States and the owner of bicycle brands Fuji, Kestrel, Breezer and SE. And I'm on the board of PeopleForBikes an industry association.

And I'm testifying out of concern for my employees, my business and our entire industry. Over the proposed tariffs on bicycles, parts, and accessories.

Additionally, I'd like to offer a solution. ASI's global headquarters is in Philadelphia. We employee nearly 2,000 Americans and sell to more than 1,500 specialty bicycle retailers in the United States and in more than 80 countries worldwide.

Performance Bicycle operates 104 stores in 23 states, and we sell in all 50 states. Our annual revenue is over $250 million.

Simply put, we anticipate a serious and harmful effect to our industry if these tariffs are approved. Our industry will see tariffs increased by more than a quarter billion dollars if the 25 percent tariff is approved. Fewer sales and less secure jobs.

As a manufacturer of bicycles and parts, and as a retailer, ASE is involved in almost every facet of the bicycle industry. Relatively few bicycles, as you heard, are made in the United States. Ninety-four percent of complete bicycles are made in China, 97 percent of children's bicycles are made in China.

I understand that tariffs are intended to protect domestic manufacturing, but in the case of the bicycle industry, that's not realistic, and pretending otherwise is dangerous to our business.

In addition, as you've heard, to complete bicycles the tariffs will affect bicycle parts and helmets. Bicycle helmets.

Bicycle helmets are mandatory for children in many states. The proposed tariff on helmets would make compliance to these laws more expensive for parents.

I appreciate and support the USTR's commitment to protecting U.S. companies from unfair trade practices. In the case of bicycles, we don't see intellectual property theft or anti-competitor practices the 301 investigation hopes to counter.

Therefore, we ask that you remove bicycles and bicycle products from the list of items that will be subject to these tariffs. I'd refer you to our written comments.

Now, I know, as well as everyone, that China cheats. And some companies are under serious threat due to China's practices. I respect the President's, and your desire, to hold them accountable.

For the bicycle industry, there's a better way to stop counterfeiting and the unfair advantage that China and other foreign businesses have that currently harms my business and the bicycle industry.

The solution is to reduce the de minimis threshold that China currently takes advantage of for shipments under $800. We suggest, I suggest, that you reduce that to $50.

Impose a minimum fee for shipments into the United States that have a value of more than $50. Understand also that these international sellers do not collect sales tax, providing an additional benefit over American retailers.

The minimum tariff could be $50 for orders between $50 and $200, 20 percent of the value for orders between $200 and $1,000 and then normal duty over $1,000.

Note that the de minimis charge into China, if you ship into China, is 60 RMB or about $10. Eighty times lower than the rate for shipments from China into the United States.

This action would eliminate the unfair advantage that non-U.S. retailers have. It would reduce fraud and counterfeit products produced by unsuspecting web stores based in China and companies that sell consumer direct, that are not subject to the tariffs and the scrutiny that importers are, like me.

Under the current de minimis of $800, businesses, like mine, lose business to foreign retailers. The current de minimis is death by 1,000 cuts.

Excluding imports of less than $800 from the proposed 25 percent tariff, products Made in China and sold by foreign retailers will get an even bigger advantage.

We would be supporting by this tariff Alibaba and other foreign retailers who already have an advantage over main street and U.S. based internet retailers. Thank you for your time.

MR. BISHOP: Thank you Mr. Cunnane. Our final witness on this Panel is Vishak Sankaran of Bushnell Holdings, Inc. Mr. Sankaran, you have five minutes.

MR. SANKARAN: Good morning. My name is Vishak Sankaran and I'm the president of Bushnell Holdings, Incorporated, a subsidiary of Vista Outdoor.

I'm also here today representing our other potentially impacted businesses in our industry segment, Primos and RCBS.

I would first like to thank and begin by appreciating your positive consideration of our previous request for exempting rifle scopes from the prior list of products that went into effect on July 6th. Your decision is very much appreciated by all the sportsmen and sportswomen who rely upon our products.

However, we now face a similar situation, a range of other products, that are included in the $200 billion list.

Imposing a ten or 25 percent tariff on these products is going to severely impact everyday folks who rely on these products for their outdoor recreational activity. These products that are now in consideration are gun cases and holsters, cleaning rods, red dot optics, range finders, hunting calls, electronic scales and trail camera boxes that are on this list.

The specific HTS classifications that these fall under are elaborated in our appendix to our written testimony.

I respectfully suggest that imposing punitive tariffs on these products is in no way going to provide leverage against China, its IPR practices or industry and polices. Quite frankly, it will only lead to higher costs for hunters and sportsmen.

If the ten to 25 percent tariffs were to be enacted, they would significantly increase the price of our products to unsustainable levels. Our consumers are avid enthusiasts and outdoors men.

But even small price increases can be very, very painful to the most dearest of hearts and dedicated of hearts. Without a doubt, this cost will negatively impact the demand for our products and in turn, will impact our business negatively leading to a further increase in cost and an escalating spiral of further deduction in demand.

This, will no question, seriously impact our ability and our future plans for investments in the United States at our various facilities in Kansas, in Montana, in California and in Mississippi. To be frank, our company cannot absorb these significant cost increases and stay in business.

Since the eight digit HTS classifications cover a wide range of products, we do not believe that the USTR intentionally captured our products or intended to capture these products. We believe that the products were simply covered because of their HTS codes and classifications they fall under, which include a variety of other products that are not consumer goods.

We hope that you will be able to remove the entire HTS classification. However, if that is not the case, we'll be gladly willing to offer definitions so that you can specifically exempt the products you did not intend to capture in this process.

Unlike some of the other products in our HTS tariff line, Bushnell has very limited options to source these products. And the vast majority of those producers are in China.

While we have explored options, we do source products from other countries, we cannot meet the value propositions that our consumers demand, by sourcing outside of China.

Shifting production will lead to

substantial increase in lead times as we seek to identify new options. And by all indications, would lead to substantially higher prices even if sufficient capacity were to exist.

At the end of the day, these tariffs are going to cause damaging price increases for everyday consumers, hunters and sportsmen.

We absolutely agree the administration should address China's discriminatory practices towards intellectual property rights, however, we do not believe that imposing punitive tariffs on consumer hunting products will convince China to change its behavior. In this case, we believe more harm will befall American consumers than would the Chinese government.

We thank you for your consideration of our request to testify on such an important matter and I look forward to answering your questions.

MR. BISHOP: Thank you, Mr. Sankaran. Madam Chairman, that concludes direct testimony from this Panel.

CHAIR GRIMBALL: Thank you. We'll start with questions in a few moments.

Thank you. We're ready to proceed with the first question.

MS. SALZMAN: This is for Mr. Alexander. What percentage of 5N's business can the European market support?

MR. ALEXANDER: It can support, the competitor that's in Europe can support the global market. So we have about, roughly, 20 to 25 percent market share, and they have the majority of the share, they could easily support the market.

It's more important that it's critical to the technology based in the U.S. We want to be able to power national security satellites and so by losing that supply chain of that technology, it would be critical.

MS. SALZMAN: Yes. Pardon, if I can clarify. It's more that if you can no longer source from China, but you said that there are sources in Europe, how much of your business can you source from Europe?

MR. ALEXANDER: Today we cannot source it from Europe because of the capability of the material that we get in the long qualification cycles. Once we qualify into the vendors, it can take 18 months to re-qualify a new vendor.

And so with short notice, it's very difficult. But if there was a long-term plan, it would be possible to develop another source. And so you could find that eventually.

MR. STEPHENS: This question is for Mr. Cove. How many members of the sports and fitness association are you aware of that have complained about intellectual property theft in China?

MR. COVE: Well, we've been dealing with this for a long, long time and frankly, we've been dealing with the threat of tariffs. I mean, 20 years ago they were talking about 100 percent tariffs on footwear coming in. We've made great progress since then.

So, the question sort of is, lately or

what we have now much more confidence in the ability to take action in China, which is part of the process. We have literally working, as you probably know, we have a history of counterfeit seizures, we've had great co-operations with customs.

It used to be that the Chinese government wasn't very supportive, now they are much more opened to actually sharing information, taking enforcement action. In fact, taking a deliberate penalty against us.

Having said that, a good number of our folks are still considered about intellectual property enforcement, that's a fact.

CHAIR GRIMBALL: One follow-up question for Mr. Cove. I don't think you identified specific HTS codes in your testimony, did you identify them in your summary?

MR. COVE: Yes, we can absolutely provide that if we didn't in our summary. I think we did, but if we didn't, we can have that to you exactly.

CHAIR GRIMBALL: Okay, thank you.

MR. COVE: Thank you.

MR. STEPHENS: And then, it would obviously vary by product, but what percentage of the fitness industry supply chain depends on manufacturing in China?

MR. COVE: Again, that's a double-edge question. There are some kind of, a fair amount of product is produced in China at the lower end, in terms of the consumer market. And then as we move up the food chain, up the price point in the technology, where some of that is produced here in the United States, components thereof are.

So in the case of the lower end product that would be sold, say for $500, $600 treadmill, which is about as of a low price as you can get, that would be almost exclusively produced in China.

And secondly, China, and Taiwan also perhaps. But as you move up to a, let's say a $4,000 or $5,000 treadmill that would be used in a club, a higher end product, you have that component with a motor which is under tariff proposal here, would be sourced in China.

MR. STEPHENS: Thanks.

MS. BONNER: This question is for Mr. Davis. It's two part.

Are you aware of any complaints by your member companies of IP theft in China?

And second, can you give us more of an idea, of what percentage of manufacturing is performed in and/or materials exported from China, relative to the global supply of the supply chain for semiconductors? The global supply chain.

MR. DAVIS: Thank you. Well, since the dawn of the commercial microelectronics industry 60 years ago, intellectual property has been a primary concern and one that our members bring up often. And China has been often cited.

Several years ago, SEMI performed a IP study in which we identified something on the order of $4 billion annually in lost revenue and sales due to IP theft from all sources. China most notable among them. As are many other countries, including sources in the United States.

So, it is a noted and persistent problem. I will also note that our member companies, over the many years of doing business in this global industry, have developed very sophisticated management practices.

And by and large feel comfortable that they know how to manage their intellectual property activities. And are far more concerned about disruptions to the supply chain and their business flows than they are the intellectual property theft.

It's extremely hard for other entities to catchup to U.S. manufacturers in the intellectual property.

In terms of the percentage of supply coming from China, which I think is your second question, I don't have specific figures. I'm very happy to query, do another member survey, and provide that estimate in a follow-up testimony.

What I do know is that some of the smaller companies, I get a lot of anecdotes and a little bit of data. Some of the anecdotes, for instance, a small materials reclaim company based in California, 12 employees, $8 million in revenue, they will go out of business if they cannot import materials from China. That's real families, real jobs lost.

There are other instances where the retaliatory tariffs will result in companies reconsidering the location of their U.S. manufacturing and put manufacturing in China, if those go through.

So there are truly sobering implications to the tariffs, and the retaliatory tariffs, to that supply chain. But to your point of the percentage, I'll try to get you an estimate.

MR. SULBY: My question is for Ms. Harned. In your testimony you talk about both bike helmets as well as other products sold by

Bell, could you please give a relative percentage of what percent of business is bike helmets versus other products?

And then secondly, could you discuss whether there are Chinese competitors exporting directly to U.S. consumers, in competition with Bell?

MS. HARNED: So, there are products that we sale that are excluded from the Proposed 301 tariffs in this round, but from a percentage perspective, helmets are the vast majority of our business because we have helmets under the Bell brand, the Giro brand, the Raskullz brand and the Krash brand. As well as Bolle and Cebe.

So, from a total business perspective we're looking at a significant portion of our business. I would say fairly close to 60 to 70 percent of our business, more depending on the brand.

In terms of Chinese competitors, the reality is that the bulk of the competitors, in our space, both in mass market retail, customers like Walmart, Target, et cetera, as well as the independent specialty bike shops as well as independent snow shops, motorcycle shops, et cetera, the vast majority of those are either American brands that are also manufacturing in China, such as some of my neighbors here, or European brands.

There are, on the motorcycle space, a few Japanese or Korean brands. They might have owned manufacturing, but from a helmet perspective, the vast majority of all competitors across all price points are American or European brands.

If there are Chinese brands coming in, most of it is coming across, as has been alluded to by the rest of the Panel, via online channels. Not necessarily in retail.

MR. STEPHENS: Just following up on your mention of online retailers, we've heard from other witnesses about online, foreign online retailing, sending directly to United States on bicycles, and also the previous Panel on apparel and related goods. We would be interested in learning more about that competition in the post-hearing briefs.

And particularly, are there, what methods of transport and are any preferential rates of U.S. Postal Service being used.

MS. HARNED: Okay. Noted. We'll make sure to follow-up. Thank you.

MR. SULEWSKI: This is for Mr. Margevicius. Would the proposed tariffs impact the sale of specialty bikes, like light-weight carbon-based bikes or electric bicycles, differently than the sale of entry level price point bikes?

MR. MARGEVICIUS: The proposed tariff would have an impact primarily on lower valued bikes. Higher valued bikes, composite bikes, right now the majority of them are being produced in Taiwan or other countries. Sometimes in Europe. So, primarily the impact would be on lower valued, less performance oriented products.

MS. SALZMAN: This question is for Mr.

Moore. It's three parts.

First is, are there alternative markets, other than China, for any of the bicycle components and accessories that you've discussed today?

Second is, can you give us just a general idea of the type of bicycle components that might be produced and manufactured in the United States?

And finally, what percentage of your company's inputs are sourced from companies located within the U.S.? Thank you.

MR. MOORE: Thank you. The first question I believe was alternative markets. So with respect to inner tubes, about 67 percent of production of bicycle inner tubes is in China. That's not a particularly pleasant industry to have in your backyard. I hope no one from the rubber industry is here.

The production of bicycle tires is also dominated by China. Bicycle tires are basically the same as making a car tire. You need a large machine to vulcanize the rubber, a tire model specific mold, tooling that's very expensive.

And that is all difficult to move from China to somewhere else. There are, with respect to tires, also sources in Japan and Thailand and India, I believe.

A lot of the components that you would use on a, you know, the type of bike that most Americans ride, the average price point is $500 to $600, to keep that price point, most of those parts are made in China.

In some cases, you'll have a supplier in Taiwan that in order to hit your price point they'll move some production or open a factory in China. It's actually a Taiwanese company but they're producing parts in China.

What is made in the U.S. This was a good question. We have about, import our self, excuse me, about 40,000, 42,000 different SKUs of bicycle parts, accessories of all kinds. Including footwear and bags that have been discussed earlier.

Some of that we buy domestically from U.S. suppliers, but it has country of origin of China. So it was approximately ten to 15 percent of our overall product mix, in terms of dollar volume was China or domestic, but country of origin of China.

And then what is made in the U.S. The high-end specialty manufacturing is still in the U.S. We sell to about three to 400 bicycle frame builders who are a small operations that build them just like the Wright Brothers did. So we supply the parts and components they need to build their frames into complete bicycles.

Again, that is a shoestring industry with low margins and would definitely suffer if the components they needed were to be more costly.

What you do see in the U.S. is specialty parts made using CNC production. And there is some emerging carbon frame production and assembly in South Carolina. But again, the numbers are low in the hundreds of thousands of units versus the millions that we see from China.

CHAIR GRIMBALL: Just a follow-up question Mr. Moore. You mentioned that bicycle tires, to some extent, are produced in other countries, Japan, Thailand and India.

Has your company explored options for moving production of that particular input to any of those countries?

Have you been encountering any --

MR. MOORE: With respect to our company, we pioneered the fat bike trend, and to make the casing wide enough to make a tire that had a large volume, we designed, our manufacturing partner in China, designed a machine to weaver that casing wide enough for a bicycle tire. So that's kind of proprietary technology that we have in China.

We have started, separate from the tariff, just looking for other suppliers to both meet the production needs we have, because it's a specialized product, as well as to provide some resiliency in our supply chain. So we had already started that search but, again, you can't move the entire factory overnight.

MS. PETTIS: All right, this is a question for Mr. Cunnane. Can you further elaborate on how your proposal to reduce the de minimis threshold for tariff exemptions and would further discourage counterfeiting?

And second part, could you further elaborate on your minimum duty proposal.

MR. CUNNANE: I didn't hear the last part.

MS. PETTIS: I'm sorry. Could you further elaborate on your minimum duty proposal also?

MR. CUNNANE: The de minimis proposal? So, currently in 2016 the de minimis, for U.S., de minimis is what is not charged for imports that come from retailers, international retailers normally, from $200 to $800.

That immediately had a negative effect on our business. Both our brick and mortar business as well as our two online brands who sell consumer direct.

The counterfeits that we see are shipped one at a time from a foreign, mostly Chinese retailer, to a consumer. So, they're under the radar. The sellers of these products are often, they come and they go, they're very hard to prosecute and find.

And consumers, because they often end up in our retail stores, are frustrated because they're branded products that come in, they have warrant issues with them, quality issues with them, safety issues with them. And the manufacturers in the United States don't stand behind that product.

So it's incredibly disruptive to the market and floods, not floods, puts a lot of products in the market that are not safe, with brand names on them that consumers rely on.

The thought is that if the de minimis was lowered to $50 and a flat rate applied, that took into account the cost to collect the money plus the idea that a U.S. retailer pays all sorts of local, state, federal taxes, tariffs and has the burden to collect sales tax, raising this or charging the right amount to make it fair for U.S. retailers to compete with foreign retailers, would be terrifically important for the economy and it would absolutely reduce a lot of the counterfeit products that come in.

I want to take the opportunity to say that e-bikes have already been imposed at 25 percent tariffs beginning on the 23rd. And we had shipments on the water that we now are paying 25 percent more than we had originally planned because of the quick and efficient application of that tariff.

Did that answer your question?

MS. PETTIS: Yes, thank you.

MR. CUNNANE: Thank you.

MS. BONNER: This question is for Bushnell Holdings. Are there any substitute products of U.S. or non-Chinese origin that could be substituted for the hunting accessories discussed in your testimony today?

MR. SANKARAN: So, we constantly are looking for and trying to source projects or substitutes from markets around the globe. That is something we seek to do.

However, and to be frank, there are some very high end specific products in, models of the products, that we are able to source from other markets. But, when you look at the vast majority of our product range, and being consumer products like we would expect in any consumer industry, the majority of the price points we serve, the vast majority of them cannot be satisfied from sources outside of China.

For a couple of reasons. Namely one being, it's just there is a lack of sufficient infrastructure and supply chain capacity for these kind of products outside of China.

And having been and looking for these sources in other parts of the world, the price points that we can get from the other markets are just substantially too high. With very limited capacity.

So those two create significant challenges for us being consumer product, the kind of volumes that we need to serve the needs of a customer substantially high. And that is the biggest piece of the challenge we have.

CHAIR GRIMBALL: That concludes the questions, thank you.

MR. BISHOP: We release this Panel with our thanks and we invite the members of Panel 3 to come forward and be seated.

Will the room please come to order?

Madam Chairman, our first witness on this panel is Stuart Feldstein of Albaugh, LLC.

Mr. Feldstein, you have five minutes.

MR. FELDSTEIN: Well, thank you very much, and good morning.

We appreciate the opportunity to address the Commission on the USTR's proposed modification of action, pursuant to Section 301.

My name is Stuart Feldstein, and I'm the Executive Vice President of Albaugh, LLC, a company headquartered in Ankeny, Iowa, just outside of Des Moines.

Founded in 1979, Albaugh today is the largest privately-held producer in the USA of post-patent crop protection products, including herbicides, fungicides, and insecticides for agricultural use. Albaugh's products are sold coast to coast and used by farmers in large row crop, fruit and vegetable, turf and ornamental, pasture, and other applications.

Albaugh today employs approximately 290 people in the USA, about 240 of whom are based in St. Joseph, Missouri, at our production facility.

The products that Albaugh sells are for use by farmers in protecting the health of their crops and improving their yields. Moreover, Albaugh's products are, by and large, off-patent, which means that they are sold at lower price points than name brands, which enables farmers to lower their cost of production.

Albaugh has been filling and expanding upon this role in the American farm economy since its founding. Next year will be our 40th year in business.

The importance of this tariff issue, not only to our business, but to American agriculture generally, cannot be overstated, which is why we decided to do something we don't typically do; namely, to travel to D.C. and speak to you directly today.

We agree with the Administration that there are aspects of our trading relationship with China that need to be addressed, but we believe that the imposition of punitive import tariffs, even if intended to be only temporary, is going to cause more harm than good. And this is certainly true in our case.

The very long list, frequently referred to as List 3, of goods on which the USTR is proposing to levy a new import duty of 10 percent, which the President is suggesting be raised to 25 percent, as a remedy for the findings of unfair trade practices, pursuant to the USTR's investigation, includes a substantial number of chemical ingredients that Albaugh requires in order to produce its products. Many of these products are not available in the United States or from countries other than China.

The products of concern to us are contained in HTS Chapters 29 and 38. The items on List 3 that Albaugh imports go into products that made up more than half of our U.S. sales in 2017. For some of our products, the only available source for these critical inputs is China. We don't have an option. We cannot source these inputs from the United States.

The proposed import duties, whether at the 10 or 25 percent level, would cause a very substantial reduction in our margins, and in the case of some products, the impact of these tariffs would eliminate all profit. According to our analysis, in general, we would have to raise prices anywhere from 17 to 72 percent to recover the impact of these tariffs. In some cases, even doubling prices would not mitigate the impact.

As a company that sells its products to hard-working farm families with limited budgets, Albaugh cannot raise its prices without hurting many of those farmers. Moreover, as a post-patent company selling products for which there are many competitors, Albaugh cannot unilaterally raise prices.

Yet, the tariffs are likely to prop the crop protection chemical market to increase prices to cover the higher cost of List 3 inputs. These price increases will affect farmers. For the affected products in Albaugh's portfolio alone, we believe that the total impact of such price increases, if they occur, could be at least a quarter of a billion dollars, up to as much as a billion dollars or more -- a billion dollars in additional costs to U.S. farmers. And those products are just a subset of the products that farmers use that are included on the List 3.

Farmers simply aren't positioned to absorb the price increases of this magnitude.

Before these tariffs were proposed, our farmers already have been struggling to make ends meet in a low commodity price and international trade constrained environment. It seems inevitable that farmers will reduce their purchases of goods affected by List 3 tariffs, and if no non-Chinese sources exist, try to do without. This places farmers in a no-win situation: pay higher cost for crop inputs that they can't afford or reduce the usage of such inputs, which will lower their yields and, hence, their income opportunity.

I want to tell you a little bit more about our facility where we produce our products for use from coast to coast. Albaugh's flagship manufacturing facility is located in St. Joseph, Missouri. Since we acquired the plant in 1991, Albaugh has invested in excess of $50 million in expanding and improving that facility.

We have an excellent record for quality and safety for our people and our community. When we purchased the plant in 1991, it employed around 20 people. Today we employ 12 times that number, much of it skilled labor, adding substantial domestic value to the materials that we import from China.

The imposition of a 10 percent tariff on our imports, let alone 25 percent, would simply destroy the value that we have built in this production facility over the last 15 years, threatening skilled jobs and creating family hardships, not to mention our company's profitability.

We are extremely concerned that these tariff actions are going to cause a lot of harm from which it will be difficult or impossible to recover, not only to us, but our workers and their families and the entire U.S. economy.

We urge the Commission, the USTR, and the Administration to say enough is enough; we need to try something else in the negotiation strategy with China and other trading partners. Stop placing these very significant burdens on farmers, on workers, and on manufacturers and other employers before damage is done that can't be undone.

I added it on the fly.

Thank you.

MR. BISHOP: Thank you, Mr. Feldstein.

Our next witness is Mike Massey with Ragan & Massey, Incorporated.

Mr. Massey, you have five minutes.

MR. MASSEY: Good morning.

I'm a 50 percent owner of Ragan & Massey, Incorporated.

MR. BISHOP: Push your microphone button, please, and pull your mic a little closer.

MR. MASSEY: Okay. My name is Mike Massey. I'm a 50 percent owner of Ragan & Massey, Incorporated.

We're a manufacturer and marketer of various herbicides containing the salt of glyphosate acid. We ask the Trade Representative to drop the tariff on HTS 2931.90.9051, specifically the commodity 95-98 percent glyphosate Tc, from the list of proposed tariffs.

We use this acid as an intermediate in the manufacturing of isopropylamine salt or glyphosate acid. As proposed, this new 25 percent tariff will bring the total tariffs on this commodity to 28.7 percent.

According to the U.S. Trade Census data, in 2017, the aggregate imports of this HTS were $143,225,633. We believe glyphosate acid and some of the salts of glyphosate acid are imported by other companies under different Harmonic Codes.

Tariffs on glyphosate acid will do little to accomplish the stated goals of the U.S. Trade Representative to obtain the elimination of any harmful acts, policies, and practices by the Chinese related to technology transfer, intellectual property, and innovation. There is simply no technology or intellectual property issues involved with this commodity. This product is not a part of the Made in China 2025 Industry Policy Program.

The various salts of glyphosate acid

are the most widely used herbicides in the United States and are a significant cause for farmers engaged in almost any agronomic production. The proposed tariff would add significantly to their cost.

Glyphosate acid in the dry form is not available from U.S. sources, and it is not available in any other country. As an importer, we must import only from manufacturers that have registered their plants with the United States Environmental Protection Agency and have submitted various tests and quality reports to qualify as a source of glyphosate acid, in compliance with our EPA-issued Technical Registration. There are no sources outside of China that meet this criteria.

Monsanto in the United States was the original patent holder and is the basic manufacturer, but they do not offer dry acid to their competitors. And as such, they are not in an approved source of acid by the EPA for our Technical EPA Registration.

The barriers to entry in the United States for potential manufacturers of glyphosate acid are very large, due to the state environmental regulations and the various regulations arising out of the Clean Water Act. We have investigated what it would take to build a plant here, and estimate the investment in new technology to clean the water contaminated by the process to be prohibitive, and the time to engineer and construct such a plant would be at least three years. We know of no company currently planning to invest in such a plant today.

Our company processes the imported acid into various concentrations of water-soluble salts of glyphosate and sells those salts throughout the United States through various retail distribution chains to farmers, to land maintenance service companies, and to homeowners. We are a small business, as defined by the SBA, and employ approximately 40 people. Our sales are approximately $40 million, and glyphosate acid imports are about $16 million per year.

This tariff represents a serious threat to the viability of our business and to our ability to maintain employment at present levels. Recently, we invested $6.5 million in a plant to convert the acid to the salt, and this tariff will certainly curtail our future investments in such plants.

We know that it's hard to estimate what the actual costs of farmers and agronomic producers across the United States are, but, as Stuart says, it's generally a given in the industry that those costs will be substantial.

Thank you very much.

MR. BISHOP: Thank you, Mr. Massey.

Our next witness is Andrew Taylor with the Juice Products Association.

Mr. Taylor, you have five minutes.

MR. TAYLOR: Good morning. Or good afternoon. I think we're right on the cusp.

My name is Andrew Taylor. I'm the Senior Vice President and Chief Financial Officer of Peace River Citrus Products, but I'm here today, though, on behalf of the Juice Products Association, where I currently serve as their Chairman.

And I'm joined today by Trade Counsel Paul Rosenthal and Jennifer McCadney of Killey Drye & Warren. I would like to recognize them as well. They asked me to recognize them. So, there we go. We got that out of the way.

Okay. So, the JPA is a trade association whose membership consists of major juice processors, packers, distributors, member companies located throughout the United States and abroad. The Association represents a significant majority of the juice producers in the United States.

So, in addition to processing domestic fruit into juice, many of our member companies buy imported concentrates, particularly those that are not made in sufficient quantity in the United States. This provides a year-round stable supply of important ingredients for U.S.

production.

So, I'm here today to ask that certain juice products not be included on the most recent list of products for which the U.S. Trade Representative has proposed applying an additional 10 or 25 percent potential duty. The tariff numbers of that products are set forth in our written comments and include specifically apple juice concentrates and pear juice concentrates. And imposing tariffs on these juices at any amount will cause harm to both domestic consumers and domestic producers of these juice products.

The JPA does support the Administration's objective to combat China's unfair intellectual property practices, but the Association is concerned that the present approach will have unintended consequences for member companies and their workers. Many of our member companies import products in the absence of substitutable domestic product or where domestic production falls short of demand, and the proposed tariffs would limit access to these crucial supplies or result in significant cost increases that would be harmful to domestic producers.

So, the industry has long relied on imports to supplement domestic production for a variety of reasons, including availability, seasonal production, and the development of custom-flavored blends. In the case of apple and pear concentrate, they are not produced in sufficient quantities in the United States to meet demand. Domestically-grown apples and pears are produced and sold in the higher-value fresh fruit market, and the only processed apple and pear juices that are made here are made from fruit that can't be sold as fresh. So, what does get juiced from U.S. production represents only a fraction of the total demand for apple and pear concentrate. Hence, there is always a need for imports to meet the demand.

And overwhelmingly, China is the supplier of those imports. In 2017, U.S. imports of apple concentrate were 1.4 billion liters. It was about 73 percent of all of the imports of apple into the country. Similarly, on pear, 122 million liters imported, about 76 percent of all pear imports. There is simply not enough volume from domestic sources or any other import source combined to cover this current level of demand.

Moreover, apple and pear concentrate are not easy to substitute, if, for example, the blend is proprietary or the manufacturer has a longstanding relationship with a supplier to ensure consistent quality and taste. Under such circumstances, even if there was an alternative, non-Chinese source for these juices, producers would need one to two years and multiple crop cycles to ensure that the substitute was comparable.

So, a tariff on one component will make domestic manufacturer blends relatively more expensive, which will not only harm domestic sales, but also U.S. exports of manufactured juices here to other countries, where our juice products are also facing increased costs. JPA members are already feeling the impact of retaliatory duties being applied by U.S. trading partners, including Canada and the EU.

So, for the industry as a whole, the situation is concerning. Importing juice components to support our blending operations has enabled our industry to remain competitive, to hire workers, to provide affordable products. Juice is highly price-sensitive. A recent study indicated that a 10 percent increase in juice would reduce consumption by 8 to 10 percent. So, the harm caused by these proposed tariff increases could be potentially irreparable. Many of our member organizations are smaller businesses; they're family-run. they've been in the country for generations, and they're not in a position to absorb these cost increases.

The proposed tariff could also have serious negative consequences for the manufacturing sector that supports the juice industry, as well as consumers, particularly those in low-income households. Apple juice, for example, is a WIC-approved juice that is consumed across all demographics. So, any cost increase of this product is likely to be felt hardest by low-income consumers. So, without a reliable competitive supply of juice products or open competitive export markets for domestic products, the U.S. industry and consumers will suffer.

So, in conclusion, we respectfully urge the Administration to remove apple and pear concentrates from the list of proposed increased tariffs because the harm will be felt disproportionately by U.S. producers and not create the desire leverage to encourage China to modify its unfair trading practices.

On behalf of the Juice Products Association, I thank you for your time, and I'd be delighted to answer any questions.

MR. BISHOP: Thank you, Mr. Taylor.

Our next witness is Michael Huff with Ascensus Specialties, LLC.

Mr. Huff, you have five minutes.

MR. HUFF: Thank you for the opportunity to address the Section 301 Committee.

My name is Michael Huff. I'm the President and CEO of Ascensus Specialties. We are a specialty chemicals provider based in Bellevue, Washington.

Ascensus is a U.S. company that has grown over the course of over 60 years to become a global leader in specialty chemicals and one of the world's leading providers to a variety of industries. Ascensus is proud to manufacture our products in the great State of Washington, where we employ 84 people, including 10 new-hires this year, at our headquarters office in Bellevue and our plant site in Elma, Washington.

We are also investing capital in expanding the plant site with a 15 percent capacity of expansion of our dry sodium borohydride product that will be completed in the fourth quarter of this year.

Among our most important products is sodium borohydride. We're the global leader in this technology, which includes both liquid solution form as well as dry powder form. Sodium borohydride is used in a wide variety of industries, including paper as a bleaching agent, including pharma for the production of active pharmaceutical, ingredients that go into antiretroviral or HIV medications, go into antibiotics for both human and veterinary purposes, antidepressants, cough medicines, crop fungicides, and so forth.

We are also used in many specialty industrial applications, including for the reduction of heavy metals from wastewater, maintenance of oil and gas equipment, as well as production of fuel cells, and purification and deodorization of various chemical process streams.

Essential to the production of sodium borohydride, our primary raw material is sodium metal, which is cited on the current proposed list. We cannot produce sodium borohydride in large commercial quantities without the importation of sodium metal from Chinese sources. This is because sodium is only produced in commercial quantities in two locations, Lantai in Inner Mongolia and a company called MSSA, which is based in France. We currently buy from both those sources. About 80 percent of our needs are supplied by the Chinese source.

It's important to note there are no U.S. suppliers of sodium metal. So, the benefit to U.S. manufacturers of this proposed action would not apply.

We estimate the negative consequences of a 10 percent tariff would be over $1.5 million to our business, and at the 25 percent level, it would be almost $4 million per year. For a small business such as Ascensus, these consequences would be extremely damaging.

Due to the competitive nature of our business and our customer contracts, we would not be able to pass along these enormous cost increases to our customers. The result of that could be making certainly our business less competitive. We currently export two-thirds of our products to both Europe and to Asia. And so, we would be at a particular disadvantage versus Chinese competitors, as we export to Asia.

It could cause a decline in our employment level, and would certainly inhibit future capital investments. We are now considering a second expansion for 2019 at our site.

We do agree with the Administration that China is a problematic trading partner; no question. And we take significant steps internally to safeguard our intellectual property in the relationships that we have.

Because there are no domestic sources of sodium metal, and because there is insufficient capacity to meet demand in other countries, a tariff on Chinese-origin sodium metal would provide no benefit or advantages for U.S. businesses. To the contrary, it would negatively impact U.S. companies like Ascensus and the myriad of companies that we supply with sodium borohydride.

For these reasons, Ascensus strongly urges the Committee to remove sodium, HTSUS 2805.11.00, from the list of products subject to the Section 301 duties.

I look forward to any questions the Committee may have, and I thank you for the opportunity to speak today.

MR. BISHOP: Thank you, Mr. Huff.

Our next witness is Nicole Vasilaros with the National Marine Manufacturers Association.

Ms. Vasilaros, you have five minutes.

MS. VASILAROS: Thank you for the opportunity to appear before you today.

My name is Nicole Vasilaros, and I'm the Senior Vice President for the National Marine Manufacturers Association.

NMMA is the largest marine industry trade association in the world. Our 1300 North American members represent boat, engine, accessory, and trailer manufacturers, and make up nearly 85 percent of the marine products sold in the United States.

Boating significantly contributes to the U.S. economy, with $39 billion in annual sales, supporting 650,000 jobs and 35,000 U.S. marine businesses. Our industry provides a uniquely American-made product. Ninety-five percent of the boats sold in the U.S. are made in the U.S. The U.S. marine manufacturing industry relies on a competitive global market rooted in free and fair trade to deliver the world's best marine products to consumers at home and abroad.

While we recognize and support the need to deal with China's unfair trade practices, the Administration's proposals to levy tariffs on $200 billion worth of imports will increase the harm U.S. manufacturers are already experiencing due to misguided trade policy. U.S. manufacturing will continue to suffer the consequences as American businesses are subjected to compounding tariffs that disrupt global supply chains and increase cost.

I urge this Committee and the Administration to cease the implementation of tariffs on U.S. manufacturers, work with our allies instead, and focus on negotiating a deal with the Government of China that is in the best interest of American consumers, workers, and businesses.

From tariffs on raw materials and components to retaliatory tariffs that have frozen international markets for U.S. marine exports, the recreational boating industry continues to bear the brunt of the Administration's trade policies. China is now the fourth country to retaliate against U.S.-made boats, joining Canada, Mexico, and the European Union, three markets that make up 70 percent of U.S. marine exports.

Compounding tariffs have led to the cancellation of millions of dollars of orders for new boats being built in American factories by American workers, resulting in employment changes, cancelled expansion plans, and halted growth.

Nearly 350 marine-related products are being hit by this Committee's Section 301 actions. The Section 301 tariffs have already increased the cost of smaller vessels by upwards of $2 to $5 thousand, which for an elastic product like a boat has negative consequences.

The enacted tariffs on marine products hurt the U.S. more than China by disrupting the profitability of U.S. businesses, employment opportunities, and the affordability for American consumers.

The scope of products included on the list far exceeds the stated goals, and rhetoric by the President to place a tariff on all Chinese imports demonstrates a hacksaw method, rather than calculated and targeted attempts to truly address intellectual property transfer. Thousands of products on this list, and the two previous, are old technology and/or products without the risk of transfer.

The currently-proposed list includes

such items as boats, inflatable vessels, marine parts, trailer tires, and fiberglass. Our U.S. marine manufacturers utilize the global supply chain to achieve economies of scale and deliver high-quality, affordable products to the 62 percent of the boat owners with a household income of less than $100,000.

Furthermore, 95 percent of the boats in the U.S. are small, towable boats under 26 feet. Hard-working, middle-class Americans tow their boats to the water every day. And the proposed tariffs on this list will make that experience significantly more expensive, targeting entry-level vessels and their transportation methods.

Fifty-six percent of boats made in the U.S. use fiberglass as their main building material. The proposed tariff on fiberglass increases the cost of manufacturing these boats, ultimately increasing the cost paid by the consumer. With small net margins and compounding tariffs, marine manufacturers are simply not able to absorb these costs.

Not only does the list propose tariffs on trailer tires, it also includes all components for use on trailers. A trailer manufacturer in Florida with 170 employees has indicated that, if this next round of tariffs goes into effect, material costs will rise between 4 and 10 percent. These tariffs would layer on the increased costs they're already experiencing due to domestic steel and aluminum tariffs.

Our manufacturers have spent significant time and resources to establish supply chains that provide the highest-quality materials, components, and accessories for U.S. workers to build and sell the world's best boats.

As another example, a family boat business in Long Island, New York, with 30 employees, would be significantly impacted by the imposition of these tariffs. This business has utilized a global supply chain to send small, inflatable fishing boats from China to the U.S. for final assembly, and sell them to consumers at an affordable price point. The business provides their employees with health care at no cost and prides itself on delivering high-quality products. Unfortunately, there is not nearly enough U.S. capacity to meet the demand for domestic fabrication.

The remainder of my comments outlining the specific HTS Codes are included in my written testimony. Thank you.

MR. BISHOP: Thank you, Ms. Vasilaros.

Our final witness on this panel is Sam Cobb with Real Wood Floors.

Mr. Cobb, you have five minutes.

MR. COBB: Good morning.

My name is Sam Cobb, and I'm the CEO and Managing Partner for Real Wood Floors, a wood floor designer and manufacturer.

Our group of companies comprise the second-largest employer in the poorest county in Missouri, and we manufacturing flooring in both the U.S. and abroad, and sell throughout the United States. Additionally, we produce lumber which is exported to China for use in their domestic markets.

I am here seeking the removal of solid and engineered wood flooring from the proposed list of items subject to Section 301 tariffs for four compelling reasons.

First and foremost, for the past seven years, imports of flooring from China have been subject to antidumping and countervailing duty orders. These orders already impose duties as high as 25 percent on imports from China under a retrospective assessment system, which means we import product and sell it without knowing our real cost until several years later.

The volume of imports of Chinese flooring has greatly diminished, as many companies develop sources from other countries. However, for many products, we continue to import from China because we have no other option, American or foreign, and we just cannot be burdened with an additional 25 percent duty under Section 301 and survive.

Secondly, it seems to me, if this Committee's concern is the growth of U.S. manufacturing, then you must understand these import tariffs will cripple the domestic U.S. hardwood lumber industry. The United States is the world's largest exporter of hardwood lumber, while China is the world's largest importer of hardwood lumber. Exported lumber is both utilized for value-added goods which are imported back to the U.S. and, as well, for the domestic Chinese market. And this is not a simple outsourcing practice.

According to a recent study produced by the American Hardwood Export Council, in conjunction with the China Timber Import Association, in the year 2000, 85 percent of the hardwood lumber imported into China was sent back out. But, in 2016, 80 percent of the hardwood imported into China stayed in China.

Additionally, a quick study of hardwood prices related to housing starts in the U.S. show an interesting trend. From the end of

World War II to 2009, these factors closely mirrored one another, but in the past decade the two have diverged greatly. Hardwood lumber prices have risen even during times of soft demand in our housing sector. This divergence is due to increasing demand for hardwood exports.

Our company was responsible for approximately 12 percent of all the hickory lumber exported to China last year. We have a symbiotic relationship with a manufacturer where we send in the lumber and process it, in cooperation with the producer. Part of that lumber is sold into the domestic Chinese market, and the remainder is shipped back to us in the U.S. for flooring for our U.S. customers. If it weren't for the processing trade that balances exports and imports, we wouldn't have the same ability to export our hickory.

On the other hand, look at red oak, our largest hardwood export. After the announcement of the impending tariff, we saw red oak export prices fall 30 percent in just a few days. After the Chinese Government announced a potential 25 percent tariff on our oak lumber inbound, all of our export orders were cancelled. The only option now for this lumber is to offer it out domestically at a lower cost, and it will quickly drop hardwood lumber prices in the U.S.

U.S. hardwood lumber exports represent a hard-fought win in our trading relationship with China, but you have to understand the complex relationship between our exports of lumber and our imports of flooring. These tariffs will harm the U.S. hardwood lumber industry deeply.

Thirdly, I know you want to know why we produce flooring in China. There are certain products that are produced in China that simply can't be produced elsewhere. It's patently unfair and unrealistic to group all products that are classified as engineered wood flooring into a single product category. There's a wide discrepancy in cost, durability, construction methods, and, most significantly, surface treatments like staining, finishing, and texturing.

There is large-scale production of engineered flooring in America, but it is almost entirely low-end commodity production. Further, a substantial volume of what is identified as American-made engineered flooring is produced using prison labor. And while I appreciate what good prison industry programs accomplish, the fact that subsidized labor is a necessary component of U.S. flooring manufacturing gives a clue as to why products continue to be made elsewhere.

Additionally, for the small amount of high-end engineered floors that are made in this country, the vast majority are produced with imported plywood cores, generally Baltic birch plywood. This plywood is imported from Russia and comprises 60 to 70 percent of the raw material that goes into the product. So, even the few U.S. companies that are able to make small amounts of high-end specs can't produce the product without imported components.

My last reason for requesting exemption is that our currently strong housing market will be negatively impacted if building materials like hardwood flooring are included on this list. You'll get statistics from others. Let me give you two examples.

Our company worked for 18 months to secure a high-end, multi-family residential building project in Brooklyn. We signed that contract two months ago. I'm not bonded and obligated to provide a half a million feet of flooring at a price we quoted last year. If you place these tariffs on our imports, that project changes from a great win to a painful loss. We will honor our contract, as a failure to complete would damage our reputation far more. But I'm sure I'm not the only one staggering under the burden of being locked into these kind of commitments.

And what about future projects? We're just about to sign a contract to supply a quarter million feet to a project in downtown Los Angeles. The news of the proposed tariff broke, and we began discussing the impact with the developer. In his estimation, this $1 billion project will likely be put on hold, as they have no way to adjust for this kind of increase in cost of materials. Again, that's a billion dollar project set to break down after years of planning because of an abrupt and arbitrary tariff addition.

Thank you for your time. I look forward to your questions.

MR. BISHOP: Thank you, Mr. Cobb.

Madam Chairman, that concludes direct testimony from this panel.

MR. STEPHENS: I'm from USDA, and I have questions for Mr. Feldstein and Mr. Massey.

Mr. Massey, you said that there is no source outside of China for the glyphosate salts?

MR. MASSEY: That's correct. The glyphosate acids. I'm sorry.

MR. STEPHENS: Yes.

MR. MASSEY: There is a glyphosate salts problem, but --

MR. STEPHENS: And I guess the question for Mr. Feldstein, is it the same, that there are no other sources for the chemicals that you import?

MR. FELDSTEIN: We import a variety of chemicals. There's several different molecules that we're involved with that are on this list. Glyphosate is one of them. And for many of them, there's no other place to go to purchase them other than China. That's correct.

MR. STEPHENS: Okay. And, Mr. Feldstein, you did not indicate -- you just said two-digit codes. Maybe you could provide more detail in your post-hearing brief?

MR. FELDSTEIN: I definitely will. It's a rather lengthy list. So, we didn't include it in the written testimony, but we'll include it in our post-hearing submission.

MR. STEPHENS: And just to circle back for both of you, you say these products are not available elsewhere than China. So, that means all herbicide production in the entire world is dependent on China or you're just not sourcing from other than China?

MR. FELDSTEIN: No, several other herbicides that we deal with are available from other places. We source some of our products domestically. We source some of our products from India. We also have a plant in Argentina that produces products which we could draw from, if it made sense to do so. We don't do that today, but that could be something that we call upon.

But we have approximately, I would say, 40 products that we sell in the United States. I'd say 75 percent of them, we're dependent on a Chinese source.

MR. STEPHENS: I see.

MR. MASSEY: Glyphosate acid is the primary thing we deal with, and it is available in other parts of the world. But the barrier to entry that's created by the EPA prevents it. I know of no glyphosate dry acid producer outside of China that has an approved plant by the EPA.

MR. STEPHENS: Thank you.

CHAIR GRIMBALL: I just have a followup question. Could you give us an idea of -- I don't know -- how long that EPA approval process generally takes? So, if your company were to look to these other countries that do produce this acid, can we get an idea of what that period would be?

MR. MASSEY: Well, first off, it would have to be a plant that the EPA had approved in another country.

CHAIR GRIMBALL: Okay.

MR. MASSEY: So, that plant would have to apply to the EPA for an establishment number.

CHAIR GRIMBALL: Okay.

MR. MASSEY: That process varies based on the information they get from the plant. I'm sure that that's -- Stuart could probably tell us -- a several-month process.

And then, for them to be approved as

a source on our registration, it would take roughly a year.

CHAIR GRIMBALL: So, you have, your company has its own internal approval process on top of what the EPA might require?

MR. MASSEY: We have that, but the EPA has one, too.

CHAIR GRIMBALL: Okay.

MR. MASSEY: So, just because they became an EPA-approved plant doesn't mean that they're an EPA-approved source for our company.

CHAIR GRIMBALL: Okay. Thank you.

MS. PETTIS: This is a question for Mr. Taylor. Which countries are the largest juice concentrate producers? And if the proposed tariffs go into effect, do alternative suppliers have the capacity to approve this product?

MR. TAYLOR: Thank you for your question.

So, China is by far the largest producer of apple and pear concentrates. And we also import other juices from China, but there are alternate sources. And so, those juices were not included in our specific petition.

But, with respect to apple and pear, there are some quantities available from certain European geographies, but the quality is different. It's a higher-acid apple. So, that may not fit with certain flavor formulations. So, there are quantities available there. The country of Chile produces apple concentrate, and Argentina, but the quantities are not even close. If you added all of them together, it's about 20 percent of the volume that we're importing from China.

In the U.S. market, farmers are directing their production of fresh apples and pears principally to the fresh market because it's a higher-value market. And so, what doesn't go fresh -- you know, maybe it's misshapen or blemished -- that fruit will get processed into juice, perhaps into not from concentrate first, which is a higher-value proposition for a grower. Then, any residual juice will be concentrated and utilized in that concentrate market. But that amount represents about 12 percent of the U.S. production of fresh apple and pear, and that amount represents about 18 percent of, as that's processed, it represents about 18 percent of the demand for concentrate of apple and pear. So, it's a very small amount domestically, and there just aren't other countries, other geographies, that U.S. manufacturers can look to for these two particular juices.

MS. PETTIS: Okay. Thank you very much.

MR. TAYLOR: Thank you, ma'am.

MS. SALZMAN: This is a question for Mr. Huff. You testified that the only non-Chinese source of sodium metal is a producer in France. Does the French supplier have the capacity to expand its production or, rather, have the capability to expand its production capacity? And is it possible for suppliers from other countries to start production?

MR. HUFF: The French supplier is

about a third the size of the Chinese supplier today. Our understanding is they are at capacity. They've expressed an interest in potentially expanding that in the future, but they have not taken that step yet.

A bit of background. For many years, up until 2016, our business sourced the vast majority of our sodium metal from a U.S. source. DuPont had a plant in Niagara Falls, New York. They closed that plant in 2016, and our business went to significant expense to set up the supply chain, including iso containers and unloading facilities to move to the Chinese source.

Also, as part of that transition, apparently, the Chinese producer bought a fair amount of the equipment from the Niagara Falls site, and they refurbished it, and they used that to expand their capacity in China.

I would love to have a U.S. source. That would be great for our business.

CHAIR GRIMBALL: One followup question. Mr. Huff, did you also mention in your testimony that Mongolia was a source for --

MR. HUFF: Well, it's China-Mongolia. The plant is located in Inner Mongolia.

CHAIR GRIMBALL: Okay. Thank you.

MR. SULEWSKI: Hello. And this question is for Ms. Vasilaros with the National Marine Manufacturers Association.

Your Association is requesting the removal of approximately 48 HTS tariff lines. To clarify, is it that there are no alternative non-China sources? Do none exist for all the products classified under these 48 HTS tariff lines?

MS. VASILAROS: No, there are some alternative sources. For example, one of the requests that we're making is for boats. We represent the U.S. boating industry and U.S. boat manufacturers. But our philosophy is simple: tariffs anywhere are bad for manufacturers here.

We see some of the products that we've requested are entry-level vessels. A lot of them are component parts. Think of a boat as a house.

It has thousands of parts on there.

So, there would be a different answer for each of the components, but for some of the lower price point vessels they are primarily sourced in China. Some of the critical component types, like tires and fiberglass, primarily sourced from China at the quality and the capacity that's needed for our industry.

MS. BONNER: This question is for Mr. Cobb.

Mr. Cobb, if the proposed tariffs on solid and engineered wood flooring did go into effect, could or would consumers likely shift to comparable or substitute flooring products?

MR. COBB: Well, the answer, again, it's a wide product spectrum that we've lumped a lot of things into. So, there are some low-end specs that are made in the United States. There are some wood-like products; there is crossover into. But, for the mid- to high-end products, no, there's not.

CHAIR GRIMBALL: Thank you, Witnesses.

That concludes the questioning period.

At this point, we're going to take a 35-minute break for lunch, and that will put us at about 1:05.

Thank you.

(Whereupon, the above-entitled matter went off the record for lunch at 12:28 p.m. and resumed at 1:05 p.m.)

CHAIR TSAO: Hi, Mr. Bishop. Before you introduce the new panel, we have some new members to the 301 Committee, and I would ask the members each to introduce themselves.

MR. SULEWSKI: Hello. Adam Sulewski with U.S. Department of Homeland Security.

MS. SALZMAN: Rachel Salzman, Department of Commerce.

MR. MCCARTIN: Good afternoon. Terry McCartin, Acting Assistant U.S. Trade Representative for China Affairs.

CHAIR TSAO: Arthur Tsao, USTR.

MS. KNISLEY: Shelbi Knisley, USDA.

MS. PETTIS: Maureen Pettis,

Department of Labor.

MS. BONNER: Sarah Bonner, U.S. Small Business Administration.

MR. BISHOP: Mr. Chairman, our first witness on this panel is Edward Brzytwa with the American Chemistry Council. Mr. Brzytwa, you have five minutes.

MR. BRZYTWA: Good afternoon. Thank you again for the opportunity to testify here today. Third time is a charm. American Chemistry Council appreciates the opportunity to testify in the administration's proposed modification of 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 the U.S. List 3, which includes a significant number of products in HTS Chapters 27 to 29 and 31 to 39, equating to $16.4 billion in imports from China.

Before I explain the impact of these tariffs and China's retaliation on our industry and the supply chains that underpin U.S. manufacturing, I would like to note ACC's disappointment that the administration did not heed our request in July to remove approximately $2.2 billion in Chinese imports of chemicals and plastics from U.S. List 2. Previously, we notified the administration that the tariffs on List 2 substances would hurt our industry's ability to do business in the United States. We cautioned that they would jeopardize nearly half of the $194 billion in announced investments and chemicals manufacturing that have been announced over the past decade, and we explained that the cost in the United States will go up not just for our member companies but also the downstream industries that buy U.S. made chemicals, including farmers and manufacturers.

If tariffs on $2.2 billion in chemicals and plastics imports that appeared on

List 2 would weaken the competitiveness of the U.S. chemicals industry, then the $16.4 billion in tariffs on additional products of chemistry in List 3 would have a potentially irreparable impact on our industry's economic structure and supply chain.

Manufacturing supply chains do not exist in a vacuum but move with ebb and flow of market forces. They are complex and intricate and rely on interconnected networks and channels that work together as one to bring finished products to market. That is what makes supply chains vulnerable to the disruptive effects that tariff and non-tariff barriers to trade can have in the global marketplace.

Supply chains are not plug and play. They cannot easily be reconfigured to meet the whims of U.S. trade policy. Forcing companies to reconfigure their supply chains would threaten the viability of their businesses.

We reiterate in the strongest possible terms the best way to preserve the interests of the U.S. chemicals industry and indeed the entire manufacturing sector is by removing chemicals from the front lines of this trade war. China is retaliating in response to these tariffs that will retaliate against $2 billion in U.S. exports to China in response to U.S. List 2. Its new $60 billion product lists issued in response to U.S. List 3 include 987 chemicals and plastics products. These tariffs will close off China's market to U.S. exports just when our industry was ready to supply China's large and growing demand for chemicals.

Trade flows between the U.S. and China will contract as tariffs are imposed on each side. Tariffs raise the price of imports and, as a result, quantity demanded will decline. How much demand falls off for each product impacted will be directly related to the availability of substitutes and alternative suppliers of the right quality, quantity, and specifications. Chinese customers may have alternatives more readily available, given their position within the Asian manufacturing hub. If that's the case, the negative impact from tariffs on the Chinese side will be less severe. Still, both sides lose when tariffs are introduced and supply chains are interrupted.

A surprising proportion of international trade is actually intra-company transfers. Imported inputs to the U.S. from China keep American firms competitive in the United States and in the global marketplace. Tariffs would erode the competitive of U.S. manufacturers and incentivize offshoring and trade diversion. If U.S. manufacturers are less competitive, then they're unlikely to be in a position where they could increase domestic sales or exports to China or Europe or anywhere else.

We share the administration's concerns about China's inadequate protections of intellectual property and forced technology transfer practices. Instead of taking a unilateral enforcement approach, we urge the administration to work closely with like-minded allies to change China's behavior and practices. However, a trade war will neither achieve a more balanced trading relationship between the U.S. and China, nor advance the interests of the U.S. economy, manufacturers and consumers.

Furthermore, imposing increased duties on the products on List 3 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 U.S. interests, including the small and medium-sized enterprises, farmers, manufacturers, and consumers.

We, therefore, strongly urge the U.S. government to rescind and avoid the imposition of tariffs and, therefore, preempt additional retaliation by China. Thank you.

MR. BISHOP: Thank you, Mr. Brzytwa. Our next witness is Jessica Fegan with Connection Chemical, LP. Ms. Fegan, you have five minutes.

MS. FEGAN: Good afternoon. My name

is Jessica Fegan. I'm the Director of Quality and Operations at Connection Chemical, LP. Thank you to the Section 301 Committee for the opportunity to testify.

Today, I will provide an overview of the impact of the proposed tariffs on the 23 harmonized tariff codes provided in my original written testimony and public comments could have on our company, the chemical distribution industry, our customers, and American consumers. Specific examples of potential injury will be given for the HTS Codes 2809.20.00 and 2835.39.50, which pertain to phosphoric acid and pyrophosphates respectfully.

Connection Chemical, LP, is a leading chemical distributor in North America. We distribute raw materials to a variety of markets, including agriculture and feed, industrial and institutional, food and beverage, oil field and energy, and water treatment, all of which are major contributors to the U.S. economy.

Established in 2010, Connection has

rapidly grown to a $76 million company employing 23 people nationwide. We use significant resources to source products from many countries, including China. Our business and continued growth depends on chemical imports to meet the demands of our U.S. customer base, as many of the chemicals we import are either not produced in the United States or current U.S. manufacturing capacity is not able to meet U.S. demand, rendering the U.S. a net importer of the substance.

Smaller business, like Connection, would be especially injured by the additional tariffs. Identifying and developing relationships with new suppliers, domestic or foreign, is incredibly onerous and costly and customer qualification of new material requires expensive and lengthy testing.

As a proud member of the National Association of Chemical Distributors, NACD, we are committed to responsible distribution. The Association's third-party verified environmental, health, safety, and security program. Our longstanding relationships with trusted suppliers ensure quality product that safely complies with U.S. regulatory requirements.

While an additional ten percent tariff on these items will be costly and burdensome, a 25 percent tariff has the ability to be devastating and irreparable to certain industries and businesses. By adding unnecessary costs to the manufacturing process, these additional tariffs will undermine the growth this administration promised, industry has been yearning for and just recently began experiencing.

Twenty-six percent of Connection Chemical sales will be impacted by the proposed tariffs. Product we are able to source outside of China will be at a cost to the consumer. Approximately 35 percent of this 26 percent will be lost sales directly related to HTS Codes 2809.20.00 and 2935.39.50, as we will be at economic disadvantage and will no longer be competitive in the U.S. phosphoric and pyrophosphate market. As a result, our company will suffer a direct loss of ten percent in sales and profits, slowing our history year-over-year growth, impacting our strategic plan, and postponing the hiring of two additional employees.

Based on economic data compiled with John Dunham & Associates for NACD, a 25 percent tariff would equate to an increased cost to chemical distributors of $101.3 million that will be passed down from the manufacturing to the distributor and ultimately to the final consumer of the various chemicals. The impact is a reduction of about 1.07 percent in chemical distributor sales overall. Lower sales volumes will put more than 530 jobs at risk, as distributors need fewer truck drivers, clerks, and warehouse staff. There will also be a decrease in jobs for longshoremen, freight forwarders, and other positions that make global supply framework possible.

When including businesses that supply chemical distributors and those who depend on re-spending by direct and supplier firm employees, a total of nearly 2500 lost jobs and $147.7 million in lost wages are at stake. The costs to the American economy in the chemical distribution industry could be nearly $453.6 million.

Due to the direct impact upon Connection Chemical, LP, the potential effect on the availability of critical raw materials to U.S. manufacturing companies and the enormous impact that the tariffs could have upon the U.S. economy overall, Connection Chemical, LP, strongly recommends that USTR find alternate approaches to address China's actions related to American intellectual property rights, innovation, or technology development.

Thank you again to the Section 301 Committee for the opportunity to testify. I hope I have provided you a helpful perspective on the impact upon our business as you select the HTS codes to include in your final determination. I look forward to answering questions you may have. Thank you.

MR. BISHOP: Thank you, Ms. Fegan. Our next witness is Joseph Gruchacz of Canaxy USA, Incorporated. Mr. Gruchacz, you have five minutes.

MR. GRUCHACZ: Yes. Thank you for having me. My company is Canaxy USA, and this will be a sample of a very small company taking advantage of the opportunity you gave me to speak.

The product, the HTS I'd ask to be exempt from the tariff is 2933.69.6015. The product is an isocyanate which is used for treatment and sanitization of water. These chemicals kill harmful bacteria, hence are helpful to America's health, primarily used in the pool and spa industry with some drinking water applications.

Isos come in from China in two forms: 2200-pound super sacks of granular which are then processed in U.S. factories, U.S.-owned factories, and also some come in for consumer use. No product is sold directly by us or our supplier directly to consumers. It all goes through distributors and retailers here in the U.S.

Why I'm here today is because there is only one manufacturer in China shipping to, one manufacturing of this item shipping to the USA, and that's Heze Huayi Chemical of China. My company is under exclusive contract for several years now to take care of their business affairs, including selling. We probably made a mistake doing this, but we let this activity become 80 percent of our business, so we have an interest.

What I plan to do right now is just discuss the environment, what's going on with this product, and maybe there will be justification for exempting it. There are three domestic producers, Occidental, KIK, and Clearon. Clearon is Chinese-owned. They are in very good shape. The senior executive from one of them told me in February they were sold out for the year.

There's also other countries, there's seven countries in the world that produce this product that I know of, U.S., Japan, Mexico, India, Spain, Italy, and China. In 2017, all six foreign countries exported to the USA. In 2018, only five exported to the USA, and one of those five is Italy, which their exports to the U.S. are down 98 percent.

In my information I submitted, I got data, and it's in page two of my document, from the Census Bureau of actual trade data coming in. And what I'd like to show here is that China, although China issues need to be addressed by our government, we've been trying to be good citizens. And you'll see in 2018 we're, by far, bringing in product at the highest declared value. Now, that's FOB that's going through Customs. Freight is taken off. But the only point I'm trying to make from this is that we've been trying to work to be good trading citizens in the community.

Some comments about the data. The Chinese product imported is valued 7 to 18 percent higher than other origins, and I must stop to say, one shortcoming of the data, it doesn't say the package, so it could be a super back, pails tend to be more, but that's something I was not able to find but I want to make sure everybody is aware.

Japanese product imports are valued at 12.4 percent less than Chinese products. Spain has ceased shipping to the U.S. altogether, and Italy is down 98.4 percent. India started shipping last year, but they did shipments in January and they've ceased since, and I get that information from the same database in the monthly data to see what they've done.

Using my estimate of the 2018 total year estimate being 26 million pounds, imports represent 8.5 percent of the domestic production capacity, which is 306 million pounds.

Duties. Currently, there's 22.4 percent duties on this product. One of the main drivers is that the three domestic petitioners, three domestic companies petitioned the Department of Commerce via the antidumping process. Mexico has been used as a surrogate country for several years now, resulting in this year 16.06 percent antidumping duty.

The only reason I want to mention Mexico is, if you look at the trade data, China's products are coming in at a higher price than Mexico and, by no means, am here today to discuss the antidumping process, which is law. But the only point I want to make is the Chinese product is coming in higher than the Mexico product, but when they used Mexico to say what should the Chinese product cost be, they said it should be 16 percent higher. So we struggle on how we could overcome this in a proper way, but we're learning.

Down below are the duties, the 2018 duties were 22.04. The preliminary antidumping for next year is 23.29. So we're up to 29.63. Adding that 25 percent, my livelihood in this business will be over. These duties are being added to the already highest import price, China being the highest import price.

A final note. Heze Huayi Chemical cooperates fully with the Department of Commerce on antidumping reviews with the antidumping reviewers.

So my request is possibly, because of some of the information above here and the U.S. already aggressively managing Heze Huayi's product coming into the U.S. through the antidumping process, consider keeping the 25 percent off to allow us to continue to try to be better citizens. Again, the Chinese product is coming in at a higher price than anyone else importing into the U.S. The three producers are very strong. Spain and India have ceased shipping to the U.S., and Italy is only two percent of what they did the previous year. And the use of Mexico as a surrogate economy in the antidumping process, you know, may have resulted in --

CHAIR TSAO: Sir, can you wrap it up, please? Thank you.

MR. GRUCHACZ: Sure. And that's all I have to say. Thank you for having me, and I hope you just consider our situation.

MR. BISHOP: Thank you, Mr. Gruchacz. Our next witness is Douglas Heffner on behalf of Dole Packaged Food. Mr. Heffner, you have five minutes.

MR. HEFFNER: Thank you. Members of the Subcommittee, thank you for your time today. I'm Douglas Heffner of Drinker, Biddle & Reath, counsel to Dole Packaged Foods. I'm here to request that USTR remove satsuma mandarins from the list of products subject to proposed additional tariffs. The top of my written testimony contains the HTS U.S. subheadings at issue. Dole will more fully present its reasons for the opposition in its written comments due on the 6th.

Together with its affiliated companies, Dole is a global leader in sourcing, processing, distributing, and marketing fruit products throughout the world. The company sources fruit from both the Northern and Southern Hemispheres to ensure a year-round supply and markets a full line of canned, jarred, cup, frozen, and dried fruit products in the United States. Dole has been a leader and innovator in new forms of packaging and processing for fruit products, and the company takes pride in its role of delivering nutritious snacks to consumers throughout the United States.

The Dole brand was first introduced in 1933 and one of the most recognized brands in the world. The company currently owns and farms approximately 1,050 acres of peach orchards in California and owns and operates a plant in Atwater, California that produces individually quick-frozen fruit with a second production facility in Decatur, Michigan. Company affiliates operate pineapple plantations, canneries, and production facilities in both the Philippines and Thailand.

Dole and its affiliates source satsuma mandarins for sale as fruit bowls, canned fruit, jarred fruit, and frozen fruit products. In some instances, satsuma mandarins are the only fruit in the product. In other cases, the satsuma mandarins are combined in a fruit blend. Dole sources satsuma mandarins for their unique taste, size, and quality that makes them ideal for use in packaged foods.

Unlike other fruits that may be available in adequate supply in other countries, Dole believes that more than 90 percent of processed satsuma mandarins are produced in China and it's asking for them to be excluded from the list of products subject to the proposed additional duties.

Although other countries grow some satsuma mandarins, an adequate supply exists in other parts of the world to replace Dole's product demand and current fruit supplies in China. Given the time necessary to plant and grow new trees and qualify suppliers according to the company requirements, Dole estimates that it would take five to eight years to replace satsuma mandarin fruit production in other countries. In other words, unlike other fruits that may be more plentiful around the world, no significant source exists to replace Chinese satsuma mandarins that could meet Dole's demand requirements.

While there are other orange varieties, none of them provide the size or the taste to maintain Dole's production of packaged fruits. Perhaps most significantly, the proposed 10- to 25 percent additional duties will be borne substantially by American consumers. Importantly, packaged fruit products, such as satsuma mandarins, provide nutritious fruit to lower-income groups across the United States. Satsuma mandarins will be particularly hard-hit by the proposed tariff increase as they are the most popular packaged fruit product purchased through government benefit programs, such as the WIC program, a special supplement nutritional program for women, infant, and children. WIC is a program that provides grants to states for supplemental foods for women, infants, and children who are found to be at nutritional risk. There are an estimated 4.2 million WIC households in the United States that have Dole satsuma mandarins authorized for WIC, and these households will be disproportionately impacted by a price increase.

In conclusion, Dole believes that the proposed tariffs on Chinese satsuma mandarins will do nothing to influence the Chinese government trade policies. Given that Dole estimates it will take five to eight years to replace satsuma mandarins grown in China, China is currently the only viable source of satsuma mandarins that can meet its demands. As such, Dole has no choice but to continue sourcing satsuma from China.

Dole believes that imposing a 10 or 25 percent tariff on these fruit products will only harm U.S. consumers, especially lower-income consumers and consumers who are at nutritional risk. Therefore, on behalf of Dole, I respectfully ask that the Subcommittee remove satsuma mandarin oranges from the list of items proposed for increased retaliatory tariffs. Thank you.

MR. BISHOP: Thank you, Mr. Heffner. Our next witness is Todd Keske with Foam Supplies, Incorporated. Mr. Keske, you have five minutes.

MR. KESKE: Thank you. Good afternoon. My name is Todd Keske, CEO of Foam Supplies, Incorporated, a privately-run company headquartered in St. Louis, Missouri. We are an international manufacturer of polyurethane technologies and products used in, but not limited to, appliances, coolers, HVAC, adhesives, roof and wall insulation for homes and commercial buildings, and many specialty applications, including automotive, cold-chain food service, footwear, marine products, and many others. We have been in business since 1972.

Clearly, tariffs play a significant

role in the overall supply-demand balance and, hence, the economics of any product. This fact is only emphasized in markets controlled by oligopolies, like the polyurethane raw material industry, and will have significant impact on all downstream markets and, ultimately, consumers. In short, if the tariff goes through, the price of most, if not all, products will go up.

I will keep the reasons plain and simple as it relates to the polyurethane industry. Number one, further restriction of competition within the U.S. The United States is a net importer of isocyanates. This hasn't always been the case but has been the circumstance for the past few years. There are four isocyanates suppliers that manufacture in the U.S. However, the largest producer in the world is based in Asia with an additional production unit in Europe. The U.S.-based manufacturers know the tariffs will further shorten supply and, on the proposition alone, have already increased prices.

Isocyanate supply has already been short due to plant maintenance outages, both locally and globally; weather, as two plants were shut down due to storm damages from Hurricane Harvey; a string of forced mergers and market consolidation from NMA activity.

Number two, zero, I emphasize zero, new isocyanate production facilities have been built for the last 20 years. For many upstream and midstream bulk commodity manufacturing sites, it takes years of planning, environmental reviews, and construction to deliver a new facility. Huge entry barriers exist, including billions of dollars of investment. Existing producers have not added capacity in the U.S. for 20 years, despite having record profits in most of those years. If a shovel were put to the ground today, it would take no less than five years and probably closer to ten before additional material could be produced stateside.

Number three, unique polyurethane market challenges. The bottlenecking of existing sites to expand supply capacity are ongoing, never accelerated, and often delayed. The bottlenecking rarely, if ever, outpaces demand and necessary plant maintenance restricts supply. Usually, the restriction is temporary. Lately, however, the standard term of temporary has increased. In all short-supply scenarios, prices rise. It is becoming more common to hear that downstream companies have shut down completely due to lack of supply. These shutdowns are punishing for all and too often catastrophic for SMEs.

Number four and my personal favorite, price fixing. Soon after the Department of Justice and major isocyanate producers agreed to settlements on price-fixing claims, the DOJ is readying itself for round two. In the most recent case, the plaintiff alleges the fixing was done through coordinated plant outages by the isocyanate manufacturers, which resulted in limited isocyanate supply. No one can guarantee if or how the market dynamics will change specific to how this case plays out. If history is our teacher, prices will ultimately go up, as they did after the prior case was settled.

Number five, oligopoly. There are only five isocyanate suppliers in the world today. It is unlikely additional players will ever be born. Entry to market is too high, too risky, and, most important, new players are not welcome by the current dominating players. Comparatively, competition for oligopolies is not rigorous. We do not need to make competition even easier for the elite few by enacting a tariff.

To close, it seems tacit on polyurethane components will penalize companies, consumers, and eventually negatively impact the U.S. market. Prices will rise and, in some cases, products will become unavailable. Everyone will hurt.

In the spirit to "Make America Great," say no to the tariff. Thank you for your time and consideration.

MR. BISHOP: Thank you, Mr. Keske. Our next witness is Robin McCann with Archroma US, Incorporated. Ms. McCann, you have five minutes.

MS. MCCANN: Good afternoon. Thank you, Chairman and members of the Committee, for your time and the opportunity to present the concerns of Archroma US. My name is Robin McCann, and I am the head of packaging and paper specialties for North America for Archroma.

Archroma is a U.S.-owned and -based specialty chemicals company headquartered in Charlotte, North Carolina. We employ over 175 people in the U.S. Archroma's facility in Martin, South Carolina employs over 100 people in high-paying technical jobs in Allendale County, an area that has been designated a federal government Promise Zone where the average income is less than $13,000.

Archroma produces optical brightening agents, or OBAs, which are chemicals used to make paper whiter and brighter. OBAs are made with the chemicals DAST and CYCL that are on the proposed Section 301 List 3. Archroma agrees with the intent of the administration in emphasizing fair trade with China but requests that you omit DAST and CYCL from List 3.

A 25 percent import tariff imposed on DAST and CYCL would yield the following unintended consequences: U.S. production of OBA will be displaced by foreign competition; domestic OBA production will cease to exist, impacting 100 highly-valuable jobs in one of America's poorest counties in the country; and Chinese-produced DAST and CYCL will continue to flow into the U.S. without duty via OBAs produced in Taiwan, Indonesia, and India, completely defeating the purpose of the Section 301 tariffs.

The U.S. paper OBA market is competitive, including Archroma and two other U.S. producers, as well as producers in India, Taiwan, and Indonesia. OBA technology is substantially fungible between suppliers, and, because there are many sourcing options, customers leverage volume for lower price. Once business is won or lost, it generally takes about two to three years to recapture, and that assumes it can be recaptured through aggressive price competition.

The cost of a typical OBA is about 90 percent raw material. Based on our analysis submitted in our written comments, a 25 percent tariff on DAST and CYCL will increase the cost of the average OBA more than 10 percent. While Archroma has devoted significant resources to optimizing its manufacturing and reining in these costs, we simply cannot absorb a large cost increase and maintain our viability.

Archroma's OBA margins are currently at the lowest level we can sustain, and our OBA business would be caught between a rock and a hard place. Due to price sensitivity, our customers will turn to foreign competitors whose manufacturing costs will not be similarly affected by these tariffs. Our offshore competition will gladly undercut our prices by the 10 percent that they will not have to pay in increased prices and the U.S. OBA market will be ceded to India, Indonesia, and Taiwan.

Archroma has fought for a level playing field in the U.S. through antidumping duties on OBA against China that were imposed in 2012 and sunset reviewed in 2017, as well as a successful GSP petition. The U.S. acknowledged that the OBA market is challenged with unfair competition by granting ADD for China and GSP for India.

Those remedies were essential to fight against unfair competition and proved just how vulnerable the OBA market in the U.S. is when imports gain an unfair edge in price. We believe that the imposition of tariffs on DAST and CYCL would reverse the actions taken to ensure fair pricing.

Currently, the OBA market remains robust for offshore competition. However, tariffs on raw materials to make OBAs will make Archroma and other U.S. manufacturers uncompetitive in a very price-sensitive industry. Worse yet, the Chinese manufacturers of DAST and CYCL will not suffer any penalty with these tariffs. They will instead supply the Taiwanese and Indonesian producers who will benefit from these tariffs.

DAST and CYCL are not produced in the U.S. No domestic industry will be protected if these chemicals are subjected to the proposed tariffs. U.S. OBA manufacturers will not be competitive and foreign suppliers will be advantaged.

The intent of the proposed tariffs is to level the playing field. Unfortunately, if DAST and CYCL are included in the final tariff decision, Taiwan, India, and Indonesian manufacturers will benefit. Surely, this would represent an undesirable outcome and one that the Section 301 action was not meant to inflict.

We urge you to omit the chemicals DAST and CYCL from 301 List 3. Imposing these tariffs on these chemicals poses an existential threat to the manufacture of OBA in the U.S. and the highly valuable jobs Archroma provides in Martin, South Carolina and throughout the U.S.

Thank you for your time and consideration, and I would be happy to answer any questions.

MR. BISHOP: Thank you, Ms. McCann. Our next witness is Richard Ruzzini with Johnson Matthey, Incorporated. Mr. Ruzzini, you have five minutes.

MR. RUZZINI: Ladies and gentlemen, thank you for the opportunity to testify today. My name is Richard --

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

MR. RUZZINI: Sure. Ladies and gentlemen, thank you for the opportunity to testify today. My name is Richard Ruzzini, and I am the supply chain director for Johnson Matthey Inc.'s clean air business, which I'll refer to as JMI.

As we'll present in more detail in the

comments that we will submit to USTR in this proceeding, I'm here to discuss the impact of an increased tariff of 10 or 25 percent would have on an important product that JMI imports from China, a zeolite crystal product classified in HTS Subheading 3824.99.3900. These materials are used in trucks and automobiles made in the United States.

JMI was incorporated in 1909 and based in Wayne, Pennsylvania. It is a specialty chemical company involved in the production and development of emission control technologies, catalyst, precious metal products, specialty chemicals, and other products. JMI operates several manufacturing facilities across the United States, in Pennsylvania, New Jersey, Georgia, and California.

JMI's emission control technology facilities, referred to as clean air, are located in Wayne and Smithfield, Pennsylvania. JMI currently employs nearly 3,000 people in the United States, 1,250 of whom are located in

Pennsylvania.

At these facilities, JMI develops, markets, commercializes, and manufactures technologies that reduce and mitigate various criteria pollutants and other harmful emissions from automobiles, medium- and heavy-duty trucks, and various fossil fuel power generation applications. As supply chain director, I'm responsible for the sourcing of our materials and supply planning for our manufacturing facilities throughout North and South America.

While JMI has several products listed on the proposed Section 301 supplemental action list, a tariff of 10 or 25 percent on zeolite crystals would be particularly problematic to our company and our customers. As our comments will explain in greater detail, zeolites are metastable crystalline materials formed by a mixture of silica and alumina. These zeolites are effectively useless as imported. It is only after JMI imports these zeolites to our facilities in Pennsylvania that we put them through our unique processes and transform them into a catalyst washcoat that are sold to many of the major passenger vehicle, truck, and engine manufacturers making vehicles in the United States, in order to reduce harmful pollutants and improve public health.

For JMI's mobile source applications, JMI takes the imported zeolite, along with other base metals and chemical constituents, transforming them into a slurry-like material, what we call a washcoat, and we then take this washcoat and apply it to a ceramic substrate. After installation on a vehicle, exhaust gases pass over the catalytic substrate where a chemical reaction converts the exhaust into less harmful emissions. The entire process, including the washcoat formulations, applications, and manufacturing processes are proprietary to JMI.

While the zeolite crystals are imported from China, the upfront research and development, marketing, commercialization, engineering, manufacturing, and shipping are all done by our personnel in the United States, primarily out of our two Pennsylvania facilities. The zeolite product that we import from China is only available from sources in China and is the only viable option that specifically meets our unique quality, performance, durability, and customer specifications.

While some similar products are available domestically and from other agent countries, these products do not meet our quality and performance specifications and could require our customers to re-certify platforms with the EPA, which could take many years and would require them to dedicate significant resources. Moreover, these alternatives cannot withstand our unique milling processes required to produce adequate particle size for our washcoat.

Therefore, we've concluded that there are no readily available products from the U.S. or any other countries outside of China to meet the needs of JMI and our customers. Because of the quantity and value of this product that we import from China, imposing a tariff of 10 or 25 percent on these zeolite products would cause extreme economic harm to JMI and to our operations in Pennsylvania, and any cost would eventually be passed on to our customers in the United State who will, in turn, likely have to increase the price of vehicles that contain our products that are produced in the United States.

While we provide more specific information on the overall negative impact of the proposed tariffs on zeolite and other products in the confidential version of our comments, I can tell you that the proposed tariffs would have a meaningful financial impact to JMI's operations in PA, the majority of which is associated with one specific zeolite classified in HTS Subheading 3824.99.3900.

In addition, the imposition of these tariffs will not help the United States in its goal of eliminating China's acts, policies, and practices that are the subject of the Section 301 investigation and will only cause potential harm to U.S. interests.

Thank you for the opportunity to testify today, and I'm available to answer any questions you may have.

MR. BISHOP: Thank you, Mr. Ruzzini. Our final witness on this panel is Sadiq Yakoobi with Bloomage Freda Biopharm USA, Incorporated. Mr. Yakoobi, you have five minutes.

MR. YAKOOBI: Good afternoon. My name is Sadiq Yakoobi, and I'm a sales director of personal care in North America for Bloomage Freda Biopharm USA. Thank you to the Committee for the opportunity to testify today. My testimony will cover the harmonization code on my written testimony.

Bloomage Freda Biopharm USA is a small subsidiary company in New Jersey with manufacturing in China for over 20 years. The main business activities include the marketing and sales of sodium hyaluronate, also known as hyaluronic acid to most, which is a natural polysaccharide, as well as other ingredients, such as aminobutyric acid coming from a natural biofermentation to be used as a raw material for making cosmetics, dietary supplements, and pharmaceutical finished products. The technology is derived from natural, green, sustainable sourcing without any conflict to IP.

The company has an annual sales revenue of around 12 million U.S. dollars, and the sales target is, roughly, about $30 million within the next three to five years based on current client forecasts and growing market demand. This has already required an expansion in personnel by hiring additional employees in the U.S. Bloomage Freda has recently invested millions of dollars in the expansion of its production facilities to meet the increase in demand.

We're requesting an exemption because of the following potential influences on our business and on that of our customers: sodium hyaluronate used in the domestic manufacture of cosmetic, dietary supplements, and upon sourcing in China because it's the only country which can handle ingredient sourcing supply on the scale demanded by finished products manufacturers of cosmetic and dietary supplements in the U.S.

Furthermore, there's no domestic producer for this raw material in the U.S. and most of the production capacity is coming from China supplying 95 percent of the food supplements industry, despite the existence of HA over the course of decades now. This has created an already competitive environment with extremely small margins. We're the only company to offer class A refining to meet the highest quality standards in all of China.

With FDA clearances from the Chinese FDA, we've also been audited by multinational companies here in the U.S. We get about 20 audits per year. Our mother company, Bloomage Freda, is the largest supplier of sodium hyaluronate, with over 350 metric tons capacity annually. That's six times larger than our competitors.

Imposing the increased tariff would result in significant economic harm and financial impact to our company, partners, distributors, and our multinational customers. If our customers were forced to obtain this raw material from alternate sourcing, which is limited abroad, most small and some medium sized companies would be out of business. And if we're able to push by the customer that digests this cost increase by ourselves, we'll have much difficulty in reaching the initial investment and targets to grow our business, and thus eliminate the need to hire new employees.

Before our customers start utilizing our products to make the pharmaceutical finished products, for example, for intra-articular injection for osteoarthritis, joint pain, cataract surgery, eye drops, contact lens solutions, as well as for anti-skin-cancer drugs, and so on, they need to invest a lot of money and time to improve our products. To carry out such trial production and go through the very long registration process, that can overshadow the three to five years to get into market. This is only for the cosmetic end. For pharma, it takes something like seven to ten years to get it validated.

Increasing of tariff costs would force them to pay more money and time to approve other sources from, say, Europe or Japan that would yield higher costs and burden to our already existing expensive healthcare system.

Imposing the increased tariff on our products would result in a significant financial burden for consumers who may bear the increased costs of finished products of dietary supplements and cosmetics, as well as reducing product choice as small and medium sized companies may shut down their doors. They could cut down operational costs, lower income by paying less taxes, cut HR, and ultimately yield higher unemployment rates.

Many of our customers in the U.S. are also coming from contract manufacturers or providing OEM services. Imposing the increased tariff on our products would cost such domestic customers to lose the competitive edge in the global market against the companies running this kind of business from other countries, say, from Asia or Europe, where they would benefit from lower import costs on the raw materials.

Sadly, bigger sized companies may consider moving their facilities out of the U.S., which would cause more dramatic consequences. Customers rely on us to grow and meet market demands in cosmetics with an aging population, supplements to promote wellness, and medical field to improve quality of life.

Therefore, I strongly request that the Committee remove the corresponding codes from Annex C due to the irreparable harm it would have upon Bloomage Freda Biopharm USA's ability to conduct business. Thank you again to the Section Committee for the opportunity to testify today.

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

MS. SALZMAN: This is a question for Mr. Brzytwa. In your submission, you argued that the proposed tariffs would significantly disadvantage and reduce the competitiveness of U.S. manufacturers. Has the ACC or any other organization that you are aware of quantified your view of the potential impact of the proposed tariffs on U.S. chemical users?

MR. BRZYTWA: That's a great question. We did some initial quantification back in April when we saw the first tariff list issued by USTR. And at that point in time, our estimate was that a 25 percent tariff on the products in that list would cause the loss of about 24,000 jobs. The successive lists, I'll be honest, it's hard to keep up with all the lists and do these quantifications; it takes a lot of detailed analysis and I think we're still working on that.

But that was a much less -- well, that's $50 billion of trade from the initial list in April. We're talking about a $200 billion list of products at a 25 percent tariff or 10 percent tariff. I would have to imagine that the job loss would be greater than 24,000.

MS. KNISLEY: Ms. Fegan, you argue that tariffs would result in significant price increases for downstream manufacturers and consumers. For the raw materials you distribute, do you have a sense of how much that tariff would be passed down to the consumer? Would it be all of it, some of it, or a small amount? Because you refer to 101.3 million in your testimony.

MS. FEGAN: So, for the methodologies done by John Dunham & Associates, I can get that information over to you. I'm not sure what that was. But what I can say is that, in general, I listed 23 HTS codes, and several of those, the 25 percent is just going to be passed straight down the supply chain. So when I'm selling to one of ACC's member companies and they're making another chemical, they're going to have to inherit that 25 percent because no one can afford to basically just, you know, encapsulate that in their costs. It has to be passed down through the supply chain.

MS. KNISLEY: Okay. But you don't know how much that is to the consumer?

MS. FEGAN: I don't know. You mean dollar amounts?

MS. KNISLEY: Yeah.

MS. FEGAN: It's going to depend on the product, each product.

MS. KNISLEY: Okay. Thank you.

MS. BONNER: Mr. Gruchacz, in your testimony you indicated that your company is under an exclusive agreement to sell Heze Huayi chemical product in the United States. Does this mean that your company is unable to import from other manufacturers in China or elsewhere?

MR. GRUCHACZ: Per the agreement, we don't sell competing products.

MS. BONNER: Okay. Thank you.

MS. KNISLEY: Mr. Heffner, in your testimony you argued that it would take years to establish the necessary fruit trees in a new country in order to support the company's supply needs. Can you help us better understand why China is such a significant source of these fruits? For example, is it the climate? Is it the supply chain network? And what about the labor costs?

MR. HEFFNER: I don't know the answer to that off the top of my head. I'll have to get that for you. But I know that they've been sourcing there for a long time and that's where the supply chain developed, and that there's very few countries that have a large enough supply for Dole to source from. I know, you know, there are some countries that produce it. Just like the Juice Products Association, they were saying a lot of the products go to fresh fruit. That's also the case in this, so that's why China is really the only source available.

MS. KNISLEY: Okay, thank you.

CHAIR TSAO: Mr. Heffner, I have a follow-up question. With respect to the satsuma mandarin used in the canned products, I mean, if the price were to increase on that, do you expect the consumers to move to a comparable or substitutable fruit products?

MR. HEFFNER: Well, they could go to apples or whatever. But I can tell you, overall, fruit products are going to go up because a lot of the products are on the list. We'll be able to resource some of it at a higher cost. Prices will go up overall, but it's only satsuma mandarins where we have no ability to really re-source.

MR. MCCARTIN: Thank you. My question is for Mr. Keske. In your written comments, you note that imports from China have been increasing and now account for 10 to 20 percent market share in the United States for the feed stock chemicals for polyurethane. In your view, what factors are driving these increases in China's market share in the U.S.?

MR. KESKE: Primarily, I would say lack of investment within the U.S. The United States manufacturers have chosen to build their newest production facilities in China, as well as the fifth largest and newest player to that oligopoly, which we like to refer to as the cartel, is only in Asia.

MR. MCCARTIN: Thank you.

MS. PETTIS: Ms. McCann, in your testimony you mentioned that Taiwan, India, and Indonesia produce the raw materials your company uses. Are there factors that limit your company's ability to source the chemicals from those other countries?

MS. MCCANN: I'm sorry, perhaps my testimony was unclear. Taiwan, Indonesia, and India produce the product that we produce, as well. So they compete in OBAs with us. China produces the raw materials.

MS. PETTIS: Okay. Thank you.

CHAIR TSAO: Quick follow-up. And is China the only source for the raw materials?

MS. MCCANN: China and India produce the DAST, and then China and Germany produce the CYCL.

CHAIR TSAO: And what's the proportion

between the two?

MS. MCCANN: India is actually a net importer of DAST, so China is the largest producer. India cannot supply world's needs for DAST. And then on CYCL, I'd have to get back to you on that.

MR. SULEWSKI: Hello. This question is for Mr. Ruzzini. In your testimony you had argued that the United States and non-Chinese suppliers are unable to provide a substitutable product that meets your company's needs. In your view, why is this? Is it access to materials? Is it technical capabilities? Or are their overall costs too high?

MR. RUZZINI: Yeah, there's like two or three reasons. There is a domestic manufacturer that we have worked with, but they have been unable to produce a product that meets our requirements in terms of our processing needs and performance needs. There is another supplier in Asia, not in China, that potentially could meet those but doesn't have capacity to meet our needs, so we can't get product from them. So it's a combination of factors.

MS. SALZMAN: This is a question for Mr. Yakoobi. In your testimony, you described the variety of products into which your chemicals are used, including contact lens solution, eye drops, and anti-skin-cancer drugs. For those finished products, can you give us a sense, an estimate, or an exact percentage of how much of your company's inputs are in the final product? Is it sort of a large proportion of the final good or a small proportion of the final good? Thank you.

MR. YAKOOBI: The percentage of HA that's used in the final product is a very small percentage.

MR. BISHOP: We release this panel with our thanks, and we invite the members of Panel 5 to come forward and be seated and the members of Panel 6 to come forward and be seated in the waiting area. Thank you.

Will the room please come to order?

CHAIR TSAO: Mr. Bishop, for the record we have a new member to the Committee. I'll have her introduce herself.

MS. D'ANDREA-YOTHERS: Maria D'Andrea-Yothers, U.S. Department of Commerce.

MR. BISHOP: Mr. Chairman, our first witness on this panel is Tony Abboud with the Vapor Technology Association.

Mr. Abboud, you have five minutes.

MR. ABBOUD: Good afternoon. My name is Tony Abboud. And I am the Executive Director of the Vapor Technology Association.

Today my testimony is in opposition to the proposed Harmonized Tariff Schedule subheading 8543.90.88, parts or other.

We are opposed to this because it would adversely affect over ten thousand United States vapor businesses and over ten million U.S. consumers of vapor products by placing what will effectively be a 25 percent tax on consumers.

The Vapor Technology Association is the leading vapor trade association in the United

States, whose six hundred member companies are dedicated to developing and selling high quality vapor products that provide adult consumers with a safer alternative to traditional, combustible cigarettes.

We represent the leading manufacturers of devices, e-liquids, flavorings, components, as well as the wholesalers, the importers, as well as the small business from all across the country that are selling these products.

There are five principal reasons why the proposed tariff on vapor devices should be altered or removed.

First, while ecigarettes are proving to be a ground-breaking technology for the purposes of smoking cessation, they do not even come close to resembling or implicating any of the industrial, aerospace, computer science, or artificial intelligence technologies about which our country is rightly concerned about protecting.

By comparison to these other

technologies and products, vapor products are simply low tech. A vapor device is comprised of four principal components, which you can see in the diagram that's on the last page of your handout.

First is a mod or a power source, which typically includes a battery and some wiring. Second is a tank or an atomizer, which holds a liquid and begins the vaporization process.

Third is a metal coil around which liquid absorbing cotton is wrapped for heating by an electrical charge. And fourth is a mouthpiece.

Now, the mere fact that a consumer vapor product is being tariffed alongside particle accelerators is entirely incongruous. In fact, from a technological perspective, vapor products are more akin to the other products in part 8543, which are not being tariffed, such machines and apparatuses for electroplating or electrolysis or electrophoresis.

Now to emphasize this technological point further, the FDA has quite literally frozen technological innovation in the United States marketplace by banning the introduction of any new vapor devices since August 8, 2016.

What this means is that the only vapor devices being sold in the United States today are devices that were first designed in 2014 and 2015, making those products in technological terms, already antiquated and getting older by the day.

Second, the United States cannot limit or prevent China's access to any of the technology involved in vapor products through this process for one simple reason, vapor technology was invented in China in 2003, not in the United States.

Since then the overwhelming majority of innovation of vapor devices has occurred in China, not in the United States. In other words, very simply, China already knows it and/or owns it.

The third reason. Now, while one may argue that the imposition of a 25 percent tariff could give an advantage to U.S. businesses, that is simply not true in this case.

The reason is, no U.S. companies manufacture vapor products. According to the GAO's own numbers, almost 98 percent of all the parts that will be governed by this tariff, are coming from China.

And there are no viable alternatives for the entire U.S. industry that has grown up around this vapor product to obtain quality vapor products.

Now, more importantly, because current FDA regulations prohibit any new company from being set up -- setting up shop in the United States to manufacture and sell vapor devices, and there's a simple reason for that, and that's because you cannot introduce any new product into the United States market today without a fully vetted, premarket authorization process.

Which will take at least two years to

complete, and tens of millions of speculative dollars. And the reasons that they're so speculative at this point is because the terms and the definition which any company would have to meet, are not defined yet.

So there is no current process in place for any company that might want to do this in the United States.

Fourth, the net result of this proposed tariff would be a 25 percent tax on consumers which would decimate this growing industry.

We have had the benefit of new jobs and new businesses being created because of all of the importer distribution network as well as brick and mortar retail shops, vape shops as they are known, have grown up throughout this country as a result of this newly growing industry. Which stands outside of any other sort of traditional tobacco realm.

So, to be clear, because -- the reason that this would be a 25 percent tax on consumers is that these companies who are often times small business, operate on very narrow margins.

And in fact, they would never be able to absorb this tariff. There's no other way for this price increase to be resolved except through passage onto the consumer.

And the final and very simple point that does not need to be belabored, is that we know that ecigarettes are safer then cigarettes. And placing a 25 percent tax on consumers who are relying on this product in order to stop smoking cigarettes, is extremely important.

Because otherwise they will be led towards the smoking -- continuing to smoke cigarettes.

And for these reasons, all of these reasons, we respectfully request that this particular device and these products be removed from the list. Or that the Commission and Section 301 Counsel consider a new code for this important new product.

MR. BISHOP: Thank you Mr. Abboud.

Our next witness is Brian Bloch with SimpliSafe, Incorporated.

Mr. Bloch, you have five minutes.

MR. BLOCH: Thank you. Hi, my name is Brian Bloch. I am the Vice President and General Counsel of SimpliSafe, Inc. Thank you for allowing me to testify today.

SimpliSafe was founded in 2006, and is based in Boston, Massachusetts. We manufacture and sell security systems direct to end user customers that connect to a central monitoring center.

Our products include door, water, and glass break sensors. Motion, smoke, and carbon monoxide detectors. Security cameras and temperature monitors to keep U.S. homes and businesses safe.

We market and sell our product to customers across the United States primarily through direct online sales. And we also sell our product through retailers such as Best Buy and Target and via online platforms such as

Amazon.com.

We import security system products and associated parts from China, and additional tariffs will make them more expensive. These products are classified under a number of subheadings of the U.S. Harmonized Tariff Schedule.

We'll comment on more tariff codes in our written submission. But today I want to focus on security systems and related parts.

An additional 10 to 25 percent duties on these items will significantly impact SimpliSafe. Those products are classified under subheadings 8525.80.30 and 8531.10.00.

Imposing additional duties on these products would not be practical or effective to eliminate China's acts, policies, and practices. Would cause disproportionate economic harm to U.S. interests, including small and medium sized businesses and customers. And would have a significant negative impact on SimpliSafe.

First, we own all the intellectual

property rights in our products designs. We protect our intellectual property in the United States, China, and elsewhere through patents, trademarks, and trade secrets.

SimpliSafe maintains close relationships with its manufacturing partners in China. And has agreements with those partners that include robust confidentiality and intellectual property protection provisions, and strong corresponding indemnification commitments.

SimpliSafe is not aware of any misappropriation of IP relating to its security system products being perpetrated by or through its Chinese manufacturing partners.

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

Second, SimpliSafe cannot solely absorb a 10 to 25 percent increase in costs for its security system products. And the retailers that sell SimpliSafe security systems are unlikely to accept additional costs of this magnitude.

Accordingly all or some portion of the additional cost associated with the additional duties would ultimately be passed onto U.S. consumers that purchase our products either direct from our website or from our retailers.

U.S. consumers rely on our products every day to keep their families and possessions safe and secure. And to fulfill their home security needs.

In addition, SimpliSafe sells its security products to small and medium sized businesses such as retail stores, restaurants and home businesses. And they too would similarly be forced to pay more for our security products used to keep their businesses and employees safe.

Third, additional duties would have a significant negative impact on SimpliSafe and its approximately six hundred employees in Boston, Massachusetts.

SimpliSafe would be force to consider

ways to help offset these additional costs, including potentially reducing or slowing the growth of U.S. headcount. Or exploring the feasibility of transferring roles or operations outside of the United States.

Furthermore the imposition of additional duties could significantly reduce our spend to support research and development with regard to new and existing products.

This would threaten to immediately reduce and inhibit the improvement and innovation of our products. And negatively delay the design and production of new, highly quality -- high quality products, which in turn could inhibit or adversely impact future growth in the United States.

It should be noted that in the 2007/2008 time frame when the company needed to put these manufacturing relationships in place, it explored domestic options for manufacturing. And the company was unable to find parties willing to quote for the business.

Since then, the company has received inbound requests from other Asian manufacturers. But none from U.S. based manufacturers.

SimpliSafe respectfully requests that subheadings 8524.80.30 and 8531.10.00, as well as other subheadings to be included in written comments to be submitted by SimpliSafe, be removed from the list of tariff headings subject to additional 10 to 25 percent duties pursuant to Section 301.

That concludes my testimony. Thank you again for allowing me to testify today. And I welcome any questions the Committee may have.

MR. BISHOP: Thank you Mr. Bloch. Our next witness is Mike Branson with Rheem Manufacturing Company.

Mr. Branson, you have five minutes.

MR. BRANSON: Good afternoon. My name is Mike Branson. And I'm the Executive Vice President and General Manager for Air Conditioning Division Operations of Rheem Manufacturing Company.

I want to begin by thanking the Section 301 Committee and USTR for arranging this important hearing. And for giving me the opportunity to speak with you once again today.

Rheem is a market leader in heating and cooling products. We're headquartered in Atlanta, Georgia.

And we have U.S. manufacturing facilities in Alabama, Arkansas, California, Connecticut, and North Carolina. Rheem currently employs approximately 32 hundred people in the United States, including over 17 hundred production workers.

I'm here today to express our support for the Administration's actions. And to highlight two important HTS codes that are missing from the proposed Section 301 list.

Over the past few years Chinese manufacturers have been highly disruptive in the North American air conditioning market. Historically their market share has been minimal.

But in recent years the Chinese

manufacturers have made serious inroads through aggressive pricing. As I testified here a few months ago, the goal of these Chinese exporters is completely to displace U.S. manufacturers.

I know this from personal experience, as I have been approached by a Chinese OEM looking to supply branded Rheem products for less than what it costs us to make our own products in America.

We declined the offer which we knew would have been terminal in the long run. But the Chinese manufacturers have redoubled their focus on U.S. air conditioning markets, now marketing under their own brands.

When I spoke to you in May, I asked that certain Harmonized Tariff subheadings related to air conditioners be added to the list of products to which Section 301 tariffs' would be applied. And these codes include 8415.10.30, 8415.10.60, 8415.10.90, 8415.81.01, 8415.82.01.

Each of these codes now appear on List Three. And we ask that they be retained on the list.

I would also ask that parts of air conditioners which fall within 8415.90.40 and in particular 8415.90.80 be added to the list. These parts of air conditioners do not appear on the list of products to which tariffs are proposed to be applied.

But they should be added. Otherwise, Chinese exporters of finished good air conditioners will be avail -- will be able to avoid the tariffs.

By way of example, a split system air conditioner consists of an indoor and an outdoor unit. If the indoor and the outdoor unit ship together as a complete system, Customs rulings hold that they enter as a finished air conditioner under 8415.10.90, which are on List Three, thus would be a subject of the tariff.

But, if the units ship separately, the outdoor and indoor unit, if they ship separately, Customs rulings state that they enter as parts of the air conditioners under 84.15.90.80. Which are not on List Three.

It would not be difficult for Chinese manufacturers to ship these units separately to avoid the tariffs. Thereby undermining the goals of the Administration. In fact, we understand that some manufacturers already ship such units separately.

Thus to ensure the intended effectiveness of the Section 301 action, tariffs also should be applied to imports of merchandise under the parts codes of subsection 8415.90.

Inclusion of these additional HTS codes on Section 301 tariff list would not cause disproportionate economic harm to U.S. interests.

Rheem recently invested tens of millions of dollars in upgrades to our Fort Smith, Arkansas facility. And the Administration's actions can encourage further investment in U.S. manufacturing activity.

Moreover, with our recent capital investments in manufacturing operations, we have sufficient capacity to react to an increase in domestic demand.

Other domestic as well as non-Chinese foreign suppliers of air conditioners also have capacity to meet demand. There is not going to be a problem of short supply in the market.

To summarize, Rheem supports a 25 percent ad valorem duty on Chinese air conditioning imports. And we ask that parts within HTS 8415.90, and especially 8415.90.80, be added to the list of products subject to Section 301 tariffs.

These proposed actions would assist in eliminating China's unfair acts, policies, and practices. And they would not cause disproportionate economic harm to U.S. interests, including small or medium sized businesses and consumers.

I thank you for your time, for your continued efforts on behalf of the interests of U.S. manufacturers and their workers.

MR. BISHOP: Thank you Mr. Branson. Our next witness is Darren Dunn of SOG Specialty

Knives and Tools.

Mr. Dunn, you have five minutes.

MR. DUNN: Good afternoon. My name is Darren Dunn. I'm the Chief Operating Officer of SOG Specialty Knives and Tools.

SOG is an American knife brand founded in 1986 in California. And now headquartered in Lynwood, Washington.

Our company has a unique heritage with close links to the U.S. military. Our original product line was focused on a consumer version of a Bowie-style knife popular among American Special Forces serving in the Vietnam war.

Since that time, our product lines have expanded to include a wide range of products, including fixed blades, folding knives, and multi-tools.

SOG products are sold in specialty stores, including Bass Pro and Cabela's, mass chains such as Walmart and Home Depot. And exported to 60 countries throughout the world.

SOG products are focused on working

tools for hardworking Americans in a variety of fields. SOG's products are used in particular by tradesmen, contractors, farmers, construction workers, firefighters, police officers, and other first responders.

We also sell our knife products and multi-tools to outdoor enthusiasts and sportsmen. And it's one of our biggest markets.

Last but certainly not least, we proudly produce knives and multi-tools used by the U.S. military. This proposed tariff will detrimentally affect these user groups.

If a tax on the ordinary citizen because of these type of product are primarily imported. A tariff will dictate that we have to raise prices.

Even in the long term, if we were successful in importing from another country or producing in the U.S., the prices will be much higher. Either way in the short term, price increases will be guaranteed.

As with a number of other companies in

our industry, we are a small to medium sized company designing, producing, and importing knives and cutting tools for the American workers, sportsmen, and outdoor enthusiast.

It is also important to understand that many knife brands in our coalition are based in smaller cities or communities. These duties have a serious negative impact on employment if our companies are affected by the proposed tariff.

You will find appended to the written version of this statement, a list of the other companies of our ad hoc coalition, as well as a list of the tariff lines that we are concerned about in the latest proposed Section 301 tariffs.

We understand how this situation has developed. And support the underlying concerns, namely countering China's high tech industrial policy targeting intellectual property practices.

Those are issues worth addressing. The latest round of proposed duties is a response to China's retaliatory tariffs against the U.S.

products.

The President then upped the ante by providing an option of increasing in the latest list of duties up to 25 percent. The Administrative motions -- motivations are understandable.

But respectively, we must wonder if this process is beginning to spin out of control? This is what brings me here today.

Our concern is that the list of targeted products is now including consumer items, including tools used by the working people and sportsmen. And it is threatening the well-being of our companies and ordinary consumers.

In addition, we believe that punitive tariffs on our knife products and multi-tools, will have a negligible impact on China's trade industrial policies.

Our knives are not the sort of products targeted by China in their made in China 2025 initiative. We also have not been targeted for intellectual property theft.

And as far as the retaliatory duties, frankly I don't think China cares much about knives as a category. It is true that knives are a source from various countries.

That is done based on a combination of quality, price, manufacturing capacity, and the ability to deliver the needed quantities on time.

The mass market products we source from China are important tools used by working men and women who need them in their every day to do their jobs.

Often these products are not supplied by their workers or by their employers. They have to buy them on their own.

In fact many first responders purchased tools such as folding pocket knives and multi-tools themselves. As you can imagine for this market, price is very important.

The same goes for sportsmen and outdoor enthusiasts. Knives and tools are essential equipment for various activities and categories of purchasers.

The proposed duties strike right at the hunters and outdoor enthusiasts who can least afford it.

If the 25 percent tariff is applied, we estimate our duty costs would increase one million dollars. The higher costs would be meaningful and substantial, affecting the future investment plans in the U.S.

Unfortunately, these costs would be passed onto the consumer. Smaller companies like ours do not have the capability of absorbing 10 or 25 percent increases in the cost of our products.

The retail prices will increase. This is likely to have a negative effect on the overall sales and bottom line. We are concerned for our company, our employees, and our customers.

I thank you for your time and the ability to testify today. Thank you.

MR. BISHOP: Thank you Mr. Dunn. Our next witness is Rick Habben with Wahl Clipper

Corporation.

Mr. Habben, you have five minutes.

MR. HABBEN: Thank you. First of all I'd like to thank the USTR for the opportunity to participate in the public hearing and to comment and share our views.

Wahl Clipper Corporation is family owned and was established in 1919. So next year is our 100th year anniversary.

We employ 12 hundred people at our manufacturing operations in Sterling, Illinois. Which has not had a layoff in nearly 50 years.

Wahl is the largest U.S. based producer of hair clippers. Over the past 30 years, almost all other clipper manufacturers have moved their operations offshore. Many of them moving to China.

During this time, we have continued to expand our manufacturing operations in Sterling, Illinois. To keep competitive in the market, we have incorporated lean manufacturing principals along with sourcing raw materials and components from other countries, including China.

As stated in our summary of comments, we applaud your intent to address China's unfair trade practices. However, we are deeply concerned with the Administration's proposed implementation of tariffs on components that are critical to U.S.A. manufacturers.

Inclusion of certain components on the most recently proposed list of tariffs would harm U.S. workers and consumers. These additional tariffs will cost us millions of dollars if implemented.

And will be the largest single profitability issue our company has ever faced in its almost 100-year history.

As such, we request the USTR consider removing tariffs from the following product codes. Parts of hair clippers and trimmers, transformers, plugs for transformers, cords, other parts of shavers, and printed circuit boards for charge stands.

These items are critical to our

manufacturing operations in Sterling, Illinois. We have invested years of research and development in our operations and suppliers.

The on boarding of new suppliers requires considerable time and resources to complete. In the summary, the steps and time it takes to bring on a new supplier are as follows:

First, you have to start with an initial supplier research. Finding out what companies are available that can maybe make these components for you?

Next, once you have some potential suppliers identified, you have to do quality audits on those suppliers to see if they have the right quality systems.

Things such as regulatory compliance, social compliance, building code compliance, security and audit documentation. They must comply with the C-TPAT requirements.

They also have to be evaluated to verify that they can meet our capacity requirements and supply enough components for us.

In addition to all that, there's the engineering time investment that our engineers, along with their engineers must invest to make sure that the critical components, materials, dimensions, and other design specifications are met.

Competitive cost. Once a supplier fully understands the design requirements and specifications, then we have to talk about the cost and determine if it's competitive.

Once we have all that established, then comes the tooling. Will they have -- we'll have to make the tooling to build up the components. These are the molds and dyes that make the parts, along with fixturing.

Next, after the tooling and stuff is completed, the supplier would have to provide production samples that we must test and verify that all design performance specifications are met.

Depending on the component testing, this could take three week or as long as six to eight months. Along with this, there's safety approvals. And then you have to then have the supply chain of buying the part.

As you can see, establishing a new supplier is not a simple endeavor. Based on the above, we estimate on average it will take one and a half years to fully implement a new supplier for the six codes identified above.

A minimum of ten months, a max of two and a half years for complex items such as lithium batteries and transformers.

For some items it may not be possible to find an alternate source that has acceptable -- that is acceptable and competitively priced with the current one.

In addition to the six HTS codes above, we request the USTR refrain from imposing Section 301 tariffs on 8510.20.9000, clippers and trimmers for a minimum of one year.

Retailers have already reviewed our 2019 pricing assortment and price lists, which includes complete units from our China factory.

Immediate implementation of tariffs on these parts and components will require us to increase this by 10 to 20 percent. This translates into a two to five dollar increase to the retailer.

Last, we would like to also note that the USTR has not proposed a tariff on electric shavers, code subheading 8510.100.000.

And this is going to be a problem for us as we have competitors who make shavers in China and they would not be tariffed on the products that they sell here in the U.S. And we would be tariffed on the components on the shavers that we make here in the U.S.

In summary, there's 43 HTS codes that will affect us. But these six listed above are critical to our operations.

Thank you for the opportunity.

MR. BISHOP: Thank you Mr. Habben. Our next witness is Elizabeth Higgins with Owens Corning.

Ms. Higgins, you have five minutes.

MS. HIGGINS: Thank you. Good afternoon. My name is Elizabeth Higgins. I am the Vice President and General Manager for our components business at Owens Corning.

Owens Corning is a U.S. company that's celebrating its 80th year servicing the United States with innovative materials for building and construction.

We at Owens Corning appreciate the importance of protecting intellectual property. And of encouraging balanced trade. And we appreciate the opportunity to be heard here today.

On behalf of the company, I am here to urge the USTR to remove coded woven fabrics under the U.S. Harmonized Tariff Schedule, subheading 4602.90.00 from the proposed list of products subject to the Section 301 tariffs.

Owens Corning, which is based in Toledo, Ohio, employs approximately 85 hundred men and women at more than 40 facilities across the United States where we develop, manufacture, and market insulation, roofing, and fiberglass composites.

Global in scope and human in scale are market leading businesses, use their deep expertise in materials, manufacturing and building science to develop products and systems that save energy and improve comfort in commercial and residential buildings.

I'd like to focus my testimony on the coded woven materials that Owens Corning manufacturers in China and imports in the United States.

These products, which were classified under subheading 4602.90.00 of the Harmonized Tariff Schedule of the United States, are materials primarily used in roofing underlayment products.

They are an essential component of a good roofing system. And are applied underneath roofing shingles, including many of the millions of shingles that Owens Corning manufacturers in the United States annually on homes or businesses.

Some of the materials are imported as finished goods. The remaining materials are unfinished form and we finish them in our facility that's located in Charleston, South Carolina.

Owens Corning's coated woven products are a synthetic as opposed to a tar paper product. The synthetic products represent approximately 40 to 50 percent of the roofing underlayment market. And Owens Corning has a significant share of the synthetic segment of the market.

Owens Corning goes to market with these products in the United States through home centers like Lowes, Minards, and Home Depot. And through traditional distribution channels that sell directly to contractors or to smaller distribution companies that in turn sell to smaller contractors.

Ultimately, the products that are sold to or used to provide new and replacement roof services to homeowners and to small business owners throughout the United States.

The U.S. Government is considering imposing additional to 10 to 25 percent duties on these imports and these products into the United States pursuant to Section 301 of the Trade Act.

I'd like to explain to the Committee that imposing such duties on coated woven products would not be practical or effective to eliminate China's acts, policies and practices.

It would cause disproportionate economic harm to the United States interests, including private consumers, small and medium sized businesses, and potentially to the U.S. Government.

And would have a significant negative impact on Owens Corning. Including in particular, the Owens Corning United States operations.

First Owens Corning manufactures the products in a wholly owned manufacturing facility in China. We use our own employees.

Also, the underlying technology associated with the products is not high end or cutting edge technology. And it's not included as part of the Made in China 2025 Program.

In addition, Owens Corning has robust intellectual property protection in place. Including internal knowledge, a security program aimed at protecting Owens Corning's trade secrets.

Finally, Owens Corning's intellectual property relating to the products in question, has not been misappropriated in China. Nor is Owens Corning aware of any organized effort to steal IP in the Chinese coated woven industry.

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

Second, Owens Corning cannot absorb a 10 to 25 percent increase in the cost of these products. As a result, Owens Corning would be forced to pass on the additional cost to customers, which in turn would likely pass on additional costs to their customers.

The end result would be increased costs for roofing contractors, the vast majority of which are small to medium sized business owners.

These homeowners, including veterans who received new roofs under the Roof Deployment Project in which Owens Corning's preferred and platinum contractors are working with Habitat for Humanity to offer new roofs and materials to former service men and women in need.

In addition, Owens Corning sales coated woven products to companies that provide roofing services for housing units for the U.S. military bases.

Increased costs for the products associated with these duties ultimately would increase the costs of the products provided to the government.

And third, additional duties on coated woven products would have a meaningful negative impact to Owens Corning. Including in particular its U.S. operations, which could be detrimental to many workers involved in the roofing business.

Owens Corning is not aware of any U.S. manufacturers of coated woven underlayment materials. And additional duties would push manufacturing operations in the supply chain to other countries and we would not benefit.

Owens Corning currently manufactures coated woven products in India. However, the facility is currently operating at full capacity.

Moving operations outside of China and investing other facilities would take approximately 18 months and 45 to 55 million dollars. Which is just not realistic.

For the reasons I discussed, Owens Corning respectfully requests the subheading 4602.90.00 be removed from the list of tariff subheadings, subject to the additional 10 to 25 percent.

I appreciate the opportunity to testify today. And I look forward to any questions or comments the Committee may have.

MR. BISHOP: Thank you Ms. Higgins. Our next witness is John McGrath with Pactiv, LLC.

Mr. McGrath, you have five minutes.

MR. McGRATH: Thank you. Good afternoon. My name is John McGrath. I'm sorry?

Oh, there we go. How is that? Okay. Perfect.

My name is John McGrath, the President and CEO of Pactiv. And I would like to thank the Section 301 Committee for allowing me the opportunity to testify today.

I also want to thank the USTR and this Administration for standing up to China for its intellectual property and other unfair market access practices.

I appreciate that these Section 301 tariffs are intended to protect American jobs. And make America more competitive against Chinese imports.

And I want to thank the Administration

for its hard work. Pactiv is in full support of the administration of these tariffs.

Since our founding in Lake Forest, Illinois more than four decades ago, we have become the world's largest manufacturer and distributor of food packaging and food service products, supplying packers, processors, supermarkets, restaurants, institutions, and food service outlets across North America.

We manufacture primarily in the United States. And are a proud contributor to the U.S. economy.

In the United States alone, we have over 85 hundred employees working in over 40 U.S. facilities located in 15 states.

Our product lines today includes custom and stock foam, plastic, aluminum, pressed paperboard, polyethylene coated board, and molded fiber packaging.

We supply every major food service retailer and distributor in North America, including household names such as McDonald's, Wendy's, Burger King, Walmart, Kroger, and Tim Horton's.

We have reviewed and are in strong support of the proposed list of additional products for which the Administration is considering the imposition of tariffs pursuant to its responsibilities under Section 301.

As a company, we have had firsthand experience of having our intellectual property stolen by Chinese manufacturers. So we are particularly pleased to see that these efforts are being taken by the Administration.

As an aside, on one product alone, we have defended our intellectual property nine times in the last ten years, at a cost of several million dollars to protect it.

We would like to make the following points with the USTR. First, we voice our support specifically for the imposition of tariffs on thermoformed and injection molded packaging and lids, HTS numbers 3923.10.90, 3923.50.00, 3923.90.00 and 3923.90.00.80.

These items are brought in by China in huge quantities at below market prices. And threaten to steal our market share in the industry and hurt our bottom line.

Also, as an aside, in the last seven years, we have closed ten manufacturing plants around the U.S. due to the influx of Chinese imports.

Second, we request that the USTR add tableware, including cutlery and cups, HTS numbers 3924.10.20, 3924.10.30, and 3924.10.40 to the list of items subject to the 301 investigation.

These items are also directly competitive with goods produced by Pactiv in the United States. In fact, China was by far the leading importer for each of these categories of goods in 2017, making up anywhere from 55 to 85 percent of the total imports in each category.

If these items continue to be brought without the Section 301 tariff, Pactiv and other U.S. producers of all sizes will suffer tremendously from disproportionate economic harm.

Third, we welcome President Trump's decision to direct the USTR to consider increasing the proposed tariff rate from 10 percent to 25 percent. And strongly encourage the USTR to do so.

The unfairly cheap prices of Chinese imports will only be offset with a tariff of 25 percent or higher. In order to achieve results from the investigation, the Administration needs to take a firm stance against China and these manufacturers.

Thank you again for giving me the opportunity to present. And I look forward to any questions.

MR. BISHOP: Thank you Mr. McGrath. Our final witness on this Panel is Charlie Souhrada with the North American Association of Food Equipment Manufacturers.

Mr. Souhrada, you have five minutes.

MR. SOUHRADA: Thank you. Members of the Section 301 Committee, thank you for the opportunity to testify today.

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

This is my second time appearing before you to testify about the potential Section 301 tariffs. But the third time NAFEM has participated in these proceedings. I appreciate your willingness to consider our testimony yet again.

As a brief reminder, NAFEM is a trade association of more than 550 food service equipment and supplies manufacturers providing products for the food away from home market.

Since 1948, NAFEM has represented North American companies that manufacture high quality food service equipment and supplies ranging from primary cooking equipment such a stoves and ovens, to storage equipment such as refrigerators, freezers and ice machines.

Along with preparation equipment like

heated cabinets and racks. And serving equipment including tables, cookware, a different kind of flatware then my friend from Pactiv makes, but flatware nonetheless, and beverage dispensers.

These businesses their workers and the products that they manufacture support the food service industry, which includes over one million locations across the United States and countless more around the world.

NAFEM's members include a range of small, medium, and large business throughout the country. Most of our members however, are small and medium sized businesses.

In fact many of these companies are family owned. And play an instrumental role in providing their communities vital, high quality manufacturing jobs for thousands of American families, fueling the success of the U.S. economy.

More than 60 percent have annual sales of five to ten million. And qualify as small businesses according to the Small Business

Administration.

This is significant because as the Wall Street Journal reported on August 8, "this class of company like others, feels good about the economy. But compared with larger operations, they have less ability to deflect higher material prices or pass along these new costs to customers."

We're happy to report that USTR's removal of certain products from the two finalized lists of Section 301 products has had, and will have, a positive impact for many of our members.

For example, equipment for making hot drinks or for cooking or for heating food was removed from List One. And slicing equipment for meat and food was removed from List Two.

Providing much needed relief at a time when these businesses struggle to deal with steel and aluminum tariffs which have already driven up material costs by 30 to 40 percent.

We also appreciate the Panel's follow

up questions during the July 24 hearing. In particular, we applaud the Panel's focus on the challenges of changing supply sources. As this would be particularly true for the targeted items that concern our members.

We are appearing here today to reiterate many of the same issues we raised during the prior two rounds. List Three contains many items of concern to our members.

And just like the first two rounds, we supplied a detailed list of the tariff numbers of concern with our request to appear. And we will do so in the formal comments we'll file later on this week.

Like certain products on previous lists, imposing tariffs on products included in List Three has the potential to harm NAFEM members either by targeting material inputs or the equipment used on the shop floor during the manufacturing process.

For instance, List Three includes glues, rubber rods, tubes, sheets, conveyor belts, insulated food and beverage bags, knives and cutting blades.

These items are used by NAFEM members to manufacture some of the products cited earlier. While these List Three products may be available from other countries, our members rely upon very complex manufacturing supply chains that have taken years to develop and maintain.

Requesting U.S. manufacturers to rebuild these supply chains drains vital resources. And will take years to source around these tariffs.

This adds a regulatory burden the Administration promised to eliminate last year. We believe these tariffs are directly contrary to the Administration's stated priority of increasing good paying U.S. manufacturing jobs.

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

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

We will supplement this testimony as necessary with a post-hearing rebuttal submission. But on behalf of NAFEM members, thank you for the opportunity to testify before you today.

And I look forward to any questions.

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

MR. McCARTIN: All right, thank you. I have a question for Mr. Abboud. I just want to -- there's one matter I just want to clarify.

Your testimony focuses on personal vaporizing devices classified under HTS subheading 8543.90.88.

Now, it's my understanding that

tariffs on that product are scheduled to go into effect on August 23. And that that product is not part of the 200 billion dollars in tariffs we're focused on in this hearing.

So, am I correct, or is there a different product that you're focusing on here?

MR. ABBOUD: You are focusing on a different product. It's the parts that are sold separately which comprise a finished kit.

Which is what was covered under List Number Two, and are about to go into effect on August 23. We're already resolved.

And our representative testified in opposition at that hearing. So the opposition today is to the category that involves the parts.

In other words, when you take a tank or the mouthpiece or the mod or the atomizer, those are imported and sold separately also. And so our comments apply equally to both.

But, in particular because compared to the kits where, according to the GAO, China sells approximately 92 percent in this category under parts. Their report indicates it's 98 percent.

And so because U.S. consumers do purchase these products individually, these are not components in the traditional sense like a raw material. They are finished products that consumers purchase and assemble their own devices.

And they use them oftentimes together. In other words, they will buy more than one tank. So that they can hold -- have different types of e-liquids in different flavors for example that they're vaping.

So this is a very different scenario. And actually could have a bigger impact. Because it also includes things like coils, which are not sophisticated at all.

They're metal coils. But they purchase these in packs of five and it's multiple times a week.

And so the price increase of 25 percent, if it's passed through to the consumer because of the fact that there's no other cost absorbers within this industry, is going to be dramatic on these individuals who are using these components and buying them separately.

Does that answer your question?

MS. D'ANDREA-YOTHERS: This question is for Mr. Bloch. Modern home security systems involve significant technology.

Are you concerned that Chinese competitors will obtain U.S. technology and then try to dominate the field?

MR. BLOCH: Thank you for that. Thanks for that question. At this time, SimpliSafe having worked with Chinese manufacturers now for nearly ten years, have yet to see any occurrence of that in our business, and with respect to our products. And with respect to our manufacturers.

So, in our supply chain and within our business, we don't have -- we don't see that risk or face that -- face that risk.

MS. BONNER: This question is for Mr. Branson. Mr. Branson, can you share how you reached your conclusion that the increased tariffs will not cause disproportionate economic harm to U.S. small and medium sized businesses?

And regarding inputs in parts, does your manufacturing process include those imported from China? And would in possession then, increase any costs for you as well?

MR. BRANSON: Thank you. Regarding inputs, we commented on this when we came to List One. That when List One was proposed, there were several inputs that would directly or indirectly impact the production of air conditioners.

And that's why we proposed that systems be included. And we were grateful for that happening.

As we did our research, is when the List Three came out. And we began to talk to customers of ours, wholesale distributors that were beginning to either inquire about buying from Chinese manufacturers, or being intro-- marketed by them aggressively.

That's when we became aware. And then

we reviewed what we intended to share here, to get their feedback.

And that's when they shared with us, well, some of these manufacturers aren't concerned about List Three at all, because they're bringing these in as parts.

And that's when we realized we needed to come back and provide that for that clarity here. It's a very growing piece.

This particular section has grown like -- this particular code. Inputs have gone up 65 percent just in the past couple of years. And it's approaching a billion dollars.

And so it's becoming significant. However, the end -- in order for the U.S. and American manufacturers to be competitive, it's important that the tariff be applied on the finished good.

Otherwise, these Chinese manufactured products which aren't imposed by the tariffs to the inputs, will just become more and more competitive against our increasing costs.

MS. BONNER: Thank you.

MR. SULEWSKI: This question is for Mr. Dunn. So, I understand that some models of SOG's products are produced in the United States and in Taiwan as well as in China.

For those models that are made in China, how long would it take to move production of those models to Taiwan, to the United States, or elsewhere?

MR. DUNN: Currently that would probably take at least 24 to 36 months. China supports 75 percent of product that SOG makes. And as well as what the industry demands.

The ability to move to Taiwan would be higher prices. Which would affect the everyday blue collar consumer that we're targeting in our business model and pricing.

And made in the USA currently is ten times the cost of molding and tooling.

MS. KNISLEY: Mr. Habben, you mentioned in your testimony of Wahl's opening price point material, which is produced in China.

Is opening price point material produced in any of Wahl's other five global manufacturing facilities?

And could you explain the efforts that would be involved in moving production of U.S. bound products to any of the other existing Wahl facilities?

MR. HABBEN: So, there is opening price point product that is made in our Vietnam facility. And part of the issue is, you know, there's certain products that are made in the China facility and other ones that are made in the Vietnam one.

And you would have to transfer the tooling and the component resources' suppliers to that other factory to get them up and running with those other products.

And also then it becomes a capacity issue. We'd have to hire additional people, you know, to make those products in that other facility as well, because it's not near as big as our China facility at this point in time.

And could you repeat the second portion of your question?

MS. KNISLEY: I think you answered most of that. Let's see. Yeah. Because I asked about moving from one facility to another.

And so I think that you've addressed that, moving it from China to Vietnam.

MR. HABBEN: Okay.

CHAIR TSAO: Just a quick follow up. What's the process like for expanding capacity in your other manufacture plants outside of China?

MR. HABBEN: Well, as I've listed in my points, the -- if we expand in our own existing factories, you know, we already have the quality systems and many of the things I mentioned already in place.

If you try and expand, you know, something other than the existing facility, then you encounter all the things that I was just listing there.

But, the biggest thing with our own facilities is moving tooling production. You know, and when you move those, you know, there's molds, molding equipment that would have to be purchased.

And so you've got the lead times of purchasing, you know, all the tooling and equipment that would go into making those products as well.

MS. D'ANDREA-YOTHERS: This question is for Ms. Higgins. You mentioned in your testimony that China is not the only country to produce the type of woven product that your company imports.

That you also manufacture in India. Do you know of any other countries that produce this material?

And secondly, approximately what percentage of the company's products involve the use of coated woven products under the HTS subheading 4602.90.00?

MS. HIGGINS: Okay. Thank you for the question. In regards to the manufacturing facilities of the competition, the majority is in

India.

There are several facilities in India. Of which we do also have a manufacturing facility in India, as I mentioned.

And there is definitely some small production in Canada with some of our competition. But that's very minimal. The majority of it is in Asia.

And the second part of your question could you repeat?

MS. D'ANDREA-YOTHERS: Sure.

MS. HIGGINS: You asked about the percentage of --

MS. D'ANDREA-YOTHERS: Yes, certainly. What percentage of your company's products involve the use of coated woven products under HTS subheading 4602.90.00?

MS. HIGGINS: Yes. So under the -- within roofing, if I understand your question correctly. And then within the roofing underlayment, we have a significant share, about 45 to 50 percent.

So there's a large majority of our roofing underlayment is actually synthetic underlayment.

MS. KNISLEY: Mr. McGrath, please explain and identify the Chinese practices that you believe have negatively affected your business and industry over the past five years.

In addition, please elaborate on your point that U.S. producers would suffer disproportionate economic harm if tariffs' were not levied.

And you can, of course, submit post hearing as well.

MR. McGRATH: Sure. So, I'll have -- let me -- let me rephrase your question then. So how have Chinese manufacturers hurt us in particular?

Was that the first part of your question?

MS. KNISLEY: Yeah.

MR. McGRATH: Yeah. So, as I explained in my testimony, we continue, and we have for many years, to see a lot of products that we formerly have made and still do make in the U.S., come over from China at very, very, very low prices.

And compete or actually take market share from us here in the U.S., displace our workers and close our factories.

MS. KNISLEY: And then for the second part, can you elaborate on the point in your testimony about U.S. producers suffering disproportionate economic harm if these tariffs are levied?

MR. McGRATH: Sure. I mean, you know, just like Pactiv, there are many U.S. manufacturers of food service disposable products.

Whether that be paper or plastic, whether they be thermoformed or injection molded. So to the extent that the market gets flooded with products that are well, well, below the market pricing levels, those manufacturers as well as Pactiv will continue to get disproportionately impacted.

MS. KNISLEY: Okay. Thank you.

MR. McGRATH: Yeah.

MS. PETTIS: And this is a question for Mr. Souhrada. You testified that the -- many of the products that your members make maybe available from other countries. But they rely on existing supply chains.

What is the fact that your members would consider if they intend to seek new supply chains for these products?

MR. SOUHRADA: Some of the factors have been mentioned already in some of the other witnesses. For example, whether they have the capacity as well as the ability to meet the need within a certain specified amount of time.

With our products, as I testified, there are about 950 different types of products that our members make. So it's very difficult for me to pin down and specify exactly what those factors would be.

In some cases if it's a heavy piece of

equipment such as a dishwasher or a stove or a range, it has to go through safety testing. Both for electrical safety as well as sanitation safety.

And that can add at least a year, if not a little bit more in terms of going through that qualification process. And that has to be called too.

Sometimes if the components are swapped out, the product will no longer meet EnergyStar. Which is a very important qualification that many publically funded food service jobs rely upon in order to specify that that piece of equipment is qualified to fit that need.

MS. PETTIS: Thank you very much.

MR. BISHOP: We release this Panel without thanks. And we call forward Panel Six. Would you please come forward and be seated.

And members of Panel Seven, if you will please come forward and be seated in the waiting area.

Will the room please come to order?

CHAIR BUSIS: Thank you, Mr. Bishop. We again have some different little -- slightly different interagency casts. So we'll introduce ourselves again.

MR. SECOR: Peter Secor, State Department.

MR. SULEWSKI: Adam Sulewski, U.S. Department of Homeland Security.

MS. D'ANDREA-YOTHERS: Maria D'Andrea-Yothers, U.S. Department of Commerce.

MS. ZUCKERMAN: Amy Zuckerman, Treasury.

MS. HEINZEN: Janet Heinzen, USTR.

MS. PETTIS: Maureen Pettis, Department of Labor.

MS. BONNER: Sarah Bonner, U.S. Small Business Administration.

MS. KNISLEY: Shelbi Knisley, USDA.

CHAIR BUSIS: Bill Busis, USTR. We can start our first witness now.

MR. BISHOP: Mr. Chairman, our first

witness on this panel is Scott Barfield with William Barnet and Son.

Mr. Barfield, you have five minutes.

MR. BARFIELD: Thank you. My name is Scott Barfield. I'm the managing director with William Barnet and Son. We are 120 year old textile manufacturing and trading company.

And today we are currently importing FDY polyester filament products under tariff code 5402.47.90.20. There are two particular products that we import under this case that is a major raw material and feedstock supply to our plant in Kinston, North Carolina where we employ over two hundred people.

This particular product is called an FDY product. And while there is one viable option here in the USA, this particular facility is relatively small, and does not currently offer the products that we use as a raw material feedstock for our products.

So this is a vital product for our operation. And we feel most definitely that the tariff suggested by the USTR would certainly negatively impact our ability to compete in the marketplace.

And also, in addition earlier this year, there was an antidumping case against five countries on less than three textile products. And however, there was one company in Korea that received a zero percent antidumping and CDD, and they're our key competitor.

And we compete with them today. And if we have to go forward with the tariff on our raw material, we will simply lose basically all of our market share to offshore competitor suppliers.

So we would like to ask the USTR if they would remove this particular code from the 25 percent of tariff code target.

MR. BISHOP: Thank you Mr. Barfield. Our next witness is Eva Hampl with the U.S. Council for International Business.

Ms. Hampl, you have five minutes.

MS. HAMPL: Thank you. Good afternoon

to the Panel. The United States Council for International Business, or USCIB, welcomes the opportunity to again provide comments and recommendations on the proposed Section 301 tariffs.

USCIB promotes open markets, competitiveness and innovation. Our members include top U.S. based global companies and professional services firms from every sector of our economy with operations in every region of the world.

As the U.S. affiliate of the International Chamber of Commerce, the International Organization of Employers, and the Business and Industry Advisory Committee to the OECD, USCIB has a unique global network through which it provides business views to policy makers and regulatory authorities worldwide. And works to facilitate international trade and investment.

USCIB submitted comments on the proposed tariffs of 25 percent on the 50 billion dollars worth of Chinese imports, as well as on the list of 16 billion dollars worth of Chinese imports.

We are hopeful that the Section 301 exclusion process will remedy some of the negative consequences of the tariffs imposed on July 6 and those that are going into effect on August 23. And I look forward to further opportunities for filing exclusions for any potential lists on tariffs.

USCIB and its members continue to be very concerned about the potential unintended consequences of these proposed tariffs of 10 percent of the 200 billion dollars worth of Chinese imports they're likely to have, affecting many sectors vital to the U.S. economy and jobs.

Particularly, if USTR follows through on the President's request to increase the level of the proposed tariffs to 25 percent on this broad list of products, the impact to U.S. competitiveness will be severe.

USCIB strongly urges the Administration to consider the significant negative consequences to U.S. companies and American jobs before taking further action. The negative impact of such tariffs to U.S. industry appears disproportionate to the intended purpose of the 301 actions.

The impact on USCIB members of various industries spans many chapters of the Harmonized Tariffs Schedule. Including Chapters 20, 29, 42, 72, 73, 75, 84, 85, 87, and 94.

Goods affected, which we ask to be removed from the list include, but are not limited to, parts in U.S. made wind turbines, routers, switches, radios, digital base fans, multiplexers, splitters, switch units, smart technology, goods using blue tooth technology, transmission devices, printed circuit board assemblies, standalone desk top computers, computers without a screen, HDMI cables, video cables, extension cords, auxiliary cords, potassium sorbate, aspartame, sucralose, sorbic acid, apple juice, postage meters, machine parts for postage meters and accessories, gas grills, futons, patio furniture, infant and child pack and play, electric lamps, light fixtures, travel goods, almost done, handbags.

Further details on these products, including the specific HTS codes will be included in our written submission. The proposed tariffs on these and other goods will negatively affect the competitiveness of U.S. goods and impede American leadership in the development of innovative technologies.

Many of the goods included in this new list are innovative products where the U.S. is an industry leader. Particularly for goods that are at the cutting edge of innovation and the future global economy, it is imperative for U.S. companies to remain highly competitive and innovative.

Sweeping nondiscriminatory tariffs will be very damaging, particularly if they are raised to 25 percent. While unfair advantages to Chinese companies, such as subsidies, are a legitimate threat to U.S. innovation and high tech, continued engagement in the Chinese market is also very important for U.S. companies in terms of their ability to be globally competitive.

USCIB members are very concerned that these proposed tariffs will stifle the U.S. economy and not achieve the important goal of changing China's behavior in the space of emerging technologies and intellectual property rights.

China's retaliation that has already happened, and threats of future retaliation further exacerbate uncertainties caused by this new proposed action.

The Administration has indicated that the goal of these tariffs is to bring China to the table, suggesting that the tariffs are the means to the end of a successful negotiation. We urge the Administration to follow through on this objective and engage in a dialog with China to negotiate an outcome that will improve conditions for U.S. companies operating in China.

Thank you for the opportunity to testify. And I look forward to your questions.

MR. BISHOP: Thank you Ms. Hampl. Our next witness is Kim Heinman with Standard Textile Company.

Ms. Heinman, you have five minutes.

MS. HEINMAN: Thank you for the opportunity to testify. I am Kim Heinman, Managing Director of Standard Textile Company.

And I'm here today to speak on behalf of our four hundred hard working, dedicated American textile workers in Union, South Carolina and Thomaston, Georgia whose jobs are threatened by the proposed tariffs on unbleached cotton fabric.

Standard Textile, a medium sized, third generation family owned business in Cincinnati, Ohio was founded in 1940 by Charles Heiman who escaped from the Dachau concentration camp and immigrated to the United States.

It is because of our family's appreciation for the opportunities that this great country has made available, that Standard Textile has invested over 66 million dollars in reopening two shuttered plants in Union and Thomaston, where we have created good jobs that pay an average of 44 thousand dollars per year, which is 42 percent above the median wage in these distressed communities.

Our process uses American cotton. We spin the cotton into American yarn. We ship the yarn to our wholly owned plant in China, which weave the yarn into unfinished fabric.

We then send the fabric roles back to the United States and to our plant in Union, South Carolina. Where we scour, bleach or dye prewashed stinter, and add special finishes.

And then we ship the rolls to Thomaston, Georgia for final fabrication, meaning cutting, sewing, folding, inspection, and packaging. In short, 70 percent of the value added is in the USA. Yet, we are being taxed as though it were the opposite.

Economically and philosophically, this

makes no sense. Our supply chain process was specifically designed so that we could control our own proprietary product and at the same time manufacture as much as possible in the United States.

We are the only company set up to do value added processing in the United States for institutional sheeting. In fact, Standard Textile accounts for 97 percent of all the unbleached cotton fabric being imported from China.

Furthermore, due to the lack of available capacity and high costs, either manufacturing or sourcing this domestically is just not a viable option.

We compete each and every day against companies that import finished sheets from countries such as China, Pakistan, and India, at a duty rate of only 6.7 percent. And I assure you, unlike us, these competitors do not generate any U.S. manufacturing jobs.

We are convinced that with a level

playing field, our U.S. workers can compete against imported products from just about anywhere in the world. But if you impose additional tariffs on unbleached cotton fabric from China, we will no longer be on a level playing field.

It makes no sense to create a competitive advantage for companies that import finished sheets versus a company that is importing fabric in order to create well-paying manufacturing jobs in this country. Simply put, our trade policy should not penalize job creation in the U.S.

In conclusion, we ask that you not impose additional tariffs on the three categories of unbleached cotton fabric listed in our statement. If you impose tariffs on these product categories, you will one, take away our ability to protect the intellectual property of our proprietary products by forcing us to buy imported finished goods from other countries.

Two, you will cause disproportionate

harm to one small, medium sized U.S. business, given that we are the only company importing unbleached cotton fabric to make sheeting in the United States.

An additional seven and a half million dollar tariff I assure you would be a significant burden to a company of our size. And most importantly, you would reward Chinese and other foreign workers at the cost of four hundred American manufacturing jobs.

I hope that you will think of these faces and their families as you consider our effort to bring back U.S. textile manufacturing jobs and Standard Textile's proactive investment to reinvent and even revive textile manufacturing in these United States of America. Thank you.

MR. BISHOP: Thank you, Ms. Heinman. Our next witness is Sara Beatty with the National Council of Textile Organizations.

Ms. Beatty, you have five minutes.

MS. BEATTY: My name is Sara Beatty and I'm the senior vice president with the

National Council of Textile Organizations. Thank you for the opportunity to appear today.

NCTO represents the full spectrum of the U.S. textile sector. And as we have voiced throughout this process, NCTO steadfastly supports the President's pursuit of a Section 301 case to address China's rampant IP abuses.

In our previous testimony and comments, NCTO documented the damaging effects of China's IP theft on U.S. textile and apparel manufacturers and made recommendations for addressing the problem.

It remains our strong view that priority should be placed on covering the following on the retaliation list: finished apparel that tracks with product being sourced from U.S. FTA partners, textile based home furnishing and other end items, and advanced technical textile products.

While fibers, yarns, and fabrics in Chapters 50 through 60 are on the subject $200 billion list, finished apparel and other sewn products in Chapters 61 through 63 are again absent.

The U.S. textile industry is disappointed by this repeated omission, and asks that USTR and the 301 Committee consider the following: first, apparel and other made-up textile goods equate to 93 and a half percent of U.S. imports from China in our sector, while fibers, yarns, and fabrics total only six and a half percent.

Given that apparel and other finished textile products made in China almost always contain Chinese inputs, a significantly greater value of Chinese fibers, yarns, and fabrics enter the U.S. market in the form of downstream finished goods.

Noting that textiles are a key industry in the China 2025 Plan, and Chinese-made textiles gain an unfair advantage through IP abuses, NCTO agrees that textiles should be part of the 301 strategy. But we continue to stress that the most effective way to target China's predatory trade practices is to address their primary means of disrupting the U.S. market: end items.

Most of China's ten million textile and apparel jobs are concentrated in the final steps of the supply chain, the labor intensive cutting and sewing operations. As such, imposing tariffs at this stage would maximize U.S. leverage in bringing China to make reforms.

Further, finished product is the form in which China most directly impacts U.S. textile and apparel production investment and jobs. China's apparel and other textile-based end items compete head to head with like western hemisphere products that are typically made of U.S. textile components.

By the time a pair of Chinese blue jeans enters the U.S. market, they have been aided by illegal trade practices at every stage in the production chain, allowing them to displace other suppliers in the market.

The pre-duty unit cost of a pair of

jeans is $7.50 imported from China compared to $8.29 from our western hemisphere free trade partners. An additional 25 percent tariff adds a $1.88 to China's price, providing a considerable incentive to ship sourcing from China to duty-free sources in the western hemisphere.

NCTO is convinced that the administration's retaliation list would be far more effective if apparel and related end products were included, and this would target the root issue and benefit the entire U.S. textile and apparel supply chain.

With the inclusion of virtually all fibers, yarns, and fabrics on the $200 billion list, NCTO is finalizing feedback on a tariff line by line basis that identifies products where the U.S. industry would be negatively impacted by additional tariffs. Many of our member companies are also preparing comments.

Given that these are largely intermediate staged manufacturing inputs imported for further processing, additional duties can be counterproductive in instances where there is no U.S. production and China is one of a limited number of import sources.

As this type of detailed information is not easily conveyed in testimony form, NCTO will be submitting supplementary public comments. However, acrylic and rayon staple fibers serve as good examples of products that NCTO recommends be removed to avoid undue harm to U.S. manufacturers.

These fibers are not produced in the United States, as is reflected in the rules of origin of our more recent free trade agreements, as well as the miscellaneous tariff bill pending in Congress.

Raising production costs for U.S. manufacturers using these inputs will only undercut their competitiveness without bolstering any U.S. producers, as there are none.

Further, yarn and fabric producers in China and other countries will not face these added costs, placing domestic textile manufacturers at an unnecessary disadvantage while providing a loophole for Chinese fibers to enter the U.S. market as downstream goods.

Beyond the traditional textile chapters, NCTO recommends the removal of certain chemicals, dyes, and finishes that are integral to the manufacturing process and create value-add in U.S. textiles. Our members report that many of these products are largely unavailable from U.S. sources and their increased costs will thus be damaging.

Again, a list of specific tariff lines will be provided along with additional textile machinery lines that NCTO opposes.

CHAIR BUSIS: And if you could finish up.

MS. BEATTY: Thank you for the opportunity to testify. We look forward to working with the Trump administration on ways to benefit -- ways to maximize the benefit of the 301 tariffs to American industry and workers.

MR. BISHOP: Thank you, Ms. Beatty.

Our next witness is Larry Little with Trayton America, Incorporated.

Mr. Little, you have five minutes.

MR. LITTLE: Good afternoon. My name is Larry Little. I'm a tenth generation North Carolinian and I've been involved in the furniture industry for 25 years. This industry is in my blood. I am the executive vice president of Sales at Trayton America. On behalf of our entire company, I want to thank you all for the opportunity and your time to express our concerns about the new Section 301 tariffs.

Whether it's 10 percent of 25 percent, tariffs would have a profound negative affect on not only our company and families but the entire furniture industry, as well as downstream service industries.

Trayton was founded in 1997 on the principal that leather sofas and other pieces for the living room should be made with high quality materials and produced efficiently to provide superior leather furniture for as many people and families as possible.

Guided by this philosophy, Trayton has grown into an international company with profound contributions to the global and U.S. economy. In the United States we have more than 200 customers, which include flagship retailers such as Macy's, Costco, Haverty's, Raymour & Flanigan.

However, I fear our company, it's values, and the livelihood of our employees are in jeopardy due to the new tariffs threatened on products from China. Specifically, I'm here to request that the USTR remove HTS codes 9401.61.40 and 9401.61.60 from the proposed list of products subject to Section 301 tariffs.

The breadth of American job losses that will result from these tariffs cannot be understated. It is not only U.S. furniture industry jobs that are at stake, but also jobs in the entire downstream service industry.

These tariffs will have far reaching ramifications that affect more than just Trayton and the furniture industry. Should these tariffs remain in place, countless U.S. jobs will be on the chopping block in sales, logistics, warehousing, distribution, and retail.

In the furniture industry, when the global economy is adversely affected, we are the first to suffer and the last to recover. Less than 12 months ago U.S. businesses and families welcomed the much anticipated Trump tax cut.

However, these new tariffs would undermine that relief, acting as an additional tax on the U.S. consumer, and would threaten the entire furniture market given the indispensable role that China plays in our industry.

The reality of the industry today is that it is not feasible to domestically produce leather furniture in the quantities needed to match U.S. demand, because we simply no longer have enough skilled labor here.

If one goal of these tariffs is to bring substantially all upholstery back to the United States, I can tell you it is not likely to happen. Even as it is, with the U.S.

manufacturing holding a healthy market share, the current skilled labor supply in the U.S. is at a critically low level.

The creation of leather furniture sold at the middle to upper price points is labor-intensive and requires highly specialized and experienced craftsmen. It is difficult to find domestic labor on the scale we require, as the U.S. lacks the same name of craftsmen it had decades ago.

It takes years to master the trade. And upholstery is no longer as common a practice, with generational or familial upholsters a thing of the past. The domestic leather upholsters that remain typically operate in niche, high end markets that cannot match the demand for our products.

China, on the other hand, is where the majority of skilled upholster furniture craftsmen reside. For the entire U.S. market, more than 50 percent of leather furniture is made in China. Without the Chinese labor supply we could not produce the furniture that is required to stay in business or fulfill customers' orders.

Further tariffs would severely hinder our business and the industry by denying access to the only labor supply that can fulfill our needs. To place a tariff on these leather imports would be disastrous. Due to the reliance on China, not a single company in the industry would be immune to the effects of these tariffs, as nearly all companies must import products or components from China.

This would cause losses across the board for all companies, big and small. The idea of Trayton or any sizable furniture being able to sustainably and reliably source exclusively in the U.S. is a complete fallacy.

Finally, there is the notion that Trayton and other companies in the furniture industry could move production to third countries as an alternate to China. Moving production to a new country is not a viable option in the upholstery business. To attempt to open production in countries such as Vietnam, Cambodia, or Thailand would take years to acquire land, establish a factory, find and train labor, and develop a reliable supply chain.

This would come at an extremely high cost that would require an enormous amount of capital and time. And our company would effectively have to shut down our entire operation for several years. Consequently, we would have to lay off employees and incur heavy losses.

Even if we're able to move to a third country, places like Vietnam and other countries do not have the necessary infrastructure and capacity to serve our needs. For example, in Vietnam there are less craftsmen and labor supply overall, which wouldn't be able to match demand and would be incapable fulfilling the same volume as China. The result would be devastating to Trayton's ability to stay afloat.

We applaud the Trump administration and the USTR's focus on addressing China's theft of intellectual property, but we are aware of no IP infringement in the furniture industry. And the products that fall under HTS codes 9401.61.40 and 61.60 are not part of the China 2025 program.

The furniture industry is an old world, labor intensive industry. It is not the type of advanced manufacturing that is covered by the China 2025 program. Tariffs on these furniture products will do nothing to curb the IP threat that is the subject of the USTR Section 301 investigation, nor will they thwart China's progress on its 2025 program. Instead, these tariffs will hurt American families and businesses.

Finally, the furniture industry is not a high profit business and any additional tariff would cause our bottom line to shrink. A 10 percent tariff would be a massive blow to our company, yet a 25 percent tariff would force us to shut our doors permanently. For these reasons, the tariffs are not anti-Chinese, but anti-business.

I implore the USTR to remove the tariffs on furniture imports under HTS 9401.61.40 and 61.60 to save good-paying U.S. jobs and keep the domestic furniture market and its consumers from irreparable harm.

Thank you.

MR. BISHOP: Thank you Mr. Little. Our next witness is Michael Saivetz with the Richloom Fabrics Group.

Mr. Saivetz, you have five minutes.

MR. SAIVETZ: Thank you for the opportunity to be here today. I am here today with my Uncle --

MR. BISHOP: Pull your mic a little bit closer for me, please.

MR. SAIVETZ: I'm here today with my uncle, Mr. James Richmond, the CEO and president of Richloom Fabrics Group. I am Michael Saivetz, the COO. Richloom was founded in 1957 by my grandfather. I'm not only here today to discuss our family-owned business, but also to tell you about the more than 250 U.S. employees and about our U.S. customers.

The proposed tariffs will cause disproportionate economic harm to Richloom, its employees, and the U.S. companies that rely on our products. Furthermore, these tariffs will not accomplish the objectives of addressing unfair Chinese practices related to technology transfer, intellectual property, or innovation.

Since my grandfather founded the company 61 years ago, Richloom has become one of the largest suppliers of home textiles in the U.S. At our headquarters on 5th Avenue in New York are skilled designers and product development specialists who create fabrics to meet the specific needs of our U.S. customers.

Our staff in New York, Indiana, North and South Carolina, work closely with customers to create attractive products that reliably meet their manufacturing needs. Those U.S. jobs depend on our extensive international and domestic supply chain. Our domestic production accounts for an excess of 25 percent of our total business. And that would also be at risk.

Our U.S. customers and their employees also depend on our reliable supply of high quality fabrics to meet their requirements. Among the U.S. manufacturing industries that we supply are residential furniture manufacturers in North Carolina and Mississippi, recreational vehicle producers in Elkhart, Indiana, and producers of outdoor furniture and accessories, as well as companies that produce finished goods for the hotel and hospitality industry.

Our customers are creating skilled manufacturing jobs to produce Made in the USA products for the American consumer. Our fabrics are produced around the world, including the U.S. At our partner facility in New England, we print millions of yards of outdoor fabrics. We produce different types of fabrics in the U.S., Turkey, Taiwan, India, in addition to China.

Our sourcing decisions depend on the particular specialization of the textile industry in a given location. What we produce in China is largely not available in the U.S. or from other parts of the world.

For example, in the booming RV industry, we produce hundreds of thousands of yards of polyurethane fabric. Polyurethanes offer unique properties, such as durability, which are perfect for RV furniture. With the resurgence of the American RV industry, this product now makes up 10 percent of our total business. China is the primary source of this product and we cannot easily nor quickly shift to alternate resources.

In contrast, other products, like outdoor fabric, which makes up 20 percent of our business, we do not produce in China, even though low cost alternatives are available there.

If Richloom is no longer able to supply these products to our key customers it will undermine our business, including our U.S. design, manufacturing and logistics operation. In addition, the impact on our customers will be significant.

One of the biggest growth areas is the RV industry, a poster child for U.S. manufacturing. The industry and its manufacturing hub in Elkhart, Indiana emerged from the ashes of the great recession, creating many new jobs in the region. We have already seen the beginning of a slowdown in this industry as a result of the first two rounds of tariffs.

In addition, we have many furniture industry customers which employ thousands of American workers. These U.S. manufacturers compete against foreign producers.

The inputs these producers get from Richloom often are only available from China. Richloom and our customers will have no choice but to continue sourcing from China, resulting in higher costs due to the proposed U.S. tariffs.

Competing foreign producers will continue to buy up fabric from China and bring finished goods in tariff-free. Meaning U.S. made furniture will be less competitive, and U.S. consumers will pay more for U.S. products.

Indeed, the proposed tariffs will have the unintended consequences of harming U.S. manufacturing and pushing jobs offshore. In specific cases, finished goods face no tariffs while fabric inputs are threatened with 25 percent duties. Soft home products such as bedding, curtain, and pillow products are omitted from these tariffs. These are the very products our U.S. customers are producing.

Tariffs on fabric will give a competitive advantage to foreign producers that compete against our U.S. customers. Certain cut-and-sew kits for furniture will remain duty free, pushing U.S. furniture producers to source these from China.

Lastly, the tariffs on fabric products will not serve the broader purpose of protecting U.S. technology or innovation. Fabric production is not an industrial priority for China, nor is it an industry where U.S. intellectual property is at risk.

In closing, a Section 301 duty should

not be imposed on Richloom fabric imports at any level. The proposed duties will directly impact both U.S. manufacturers and the Americans that buy their products.

I thank you for the opportunity of being here and I'm happy to answer any questions.

MR. BISHOP: Thank you Mr. Saivetz. Our next witness is Eric Zetterquist with Zetterquist Galleries.

Mr. Zetterquist, you have five minutes.

MR. ZETTERQUIST: Thank you, ladies and gentlemen for allowing me to appear today. My name is Eric Zetterquist. I've been a dealer of Asian antiquities of the last 27 years. I am a small business and I'm here to fight for my livelihood.

The impending tariffs on Chinese goods includes two line items for Chinese antiquities. A specific category, 9706.00.00, applies to antiques of an age exceeding one hundred years. And another, 9705.00.00, to collections and collectors' pieces of historical and archeological interest.

Please note that taxing these items does nothing to level the playing field of international trade. They do, however, severely hamper the American scholars, collectors, dealers, and museums involved in the field.

America does not tax imports of art and antiquities from any other country. Traditionally, our country which has relatively young history, has allowed the free importation of antiques and original works of art as a way to enrich our own culture.

To suddenly tax the art and antiques from one country would set a dangerous precedence, opening the floodgates to other forms of selective censorship and increased cultural chauvinism.

No antiquities are directly imported from mainland China as their export is illegal there. Therefore, a tariff on Chinese antiquities would have no punitive effect whatsoever on PRC China. Most of the Chinese antiquities sourced outside of the United States are purchased from existing collections in Japan, Southeast Asia, Europe, and the U.K.

To place a blanket tariff on all Chinese art and antiquities regardless of where they are bought would be a meaningless gesture that would have no punitive effect on PRC China, but would do great harm to American collectors, dealers, scholar, and museums, giving them an unfair disadvantage in the marketplace.

The proposed tariff does nothing to benefit American small and medium sized businesses, workers, and the already beleaguered farmers. Obviously, we don't produce Chinese antiquities in this country, and people are not suddenly going to switch to American antiquities because Chinese antiquities are 25 percent more expensive. There will not be any further employment or capital development as a result of the proposed tariffs on Chinese antiquities.

The proposed tariff on Chinese

antiquities punishes American scholars, collectors, dealers, and museums by effectively reducing access to material. Why would the American government punish its own citizens with no apparent benefit to trade imbalances?

To add insult to injury, the proposed tariff aids and abets PRC Chinese collectors by skewing the market to their benefit. Over the past decade, the biggest competition to American collectors and dealers and collecting institutions has been from PRC collectors.

By imposing a 25 percent tariff on Chinese antiquities being imported into the United States, the American government is in effect bolstering the buying position of PRC Chinese collectors while weakening our own.

The government should not be the business of empowering its citizen -- I'm sorry. Governments should be in the business of empowering it's citizenry and institutions, not hobbling them. The proposed tariffs would effectively hobble Americans while further empowering PRC counterparts. I sincerely doubt that this is the intent of these tariffs.

I respectfully request that you eliminate these two line items, Harmonized Code 9706.00.00 and 9705.00.00 from the list of items to be taxed in the impending tariffs against China. Thank you very much.

MR. BISHOP: Thank you, Mr. Zetterquist. Our final witness on this panel is Eric Autor of the National Association of Foreign-Trade Zones.

Mr. Autor, you have five minutes.

MR. AUTOR: My name is Eric Autor, President of the National Association of Foreign-Trade Zones. Congress created the U.S. Foreign-Trade Zones program in 1934 to help U.S.-based companies to be more globally competitive, maintain U.S.-based manufacturing and distribution and jobs, attract investment and employment opportunities into American communities, and boost exports through special duty benefits and customs procedures.

A quirk in the customs entry process for zone manufactured merchandise has resulted in the unwarranted assessment of Section 301 duties on some finished products manufactured and substantially transformed into new products in U.S. foreign-trade zones.

Consequently NAFTZ requests an exclusion from Section 301 duties for all such products. Because of confusion on this point, I want to emphasize that this exclusion would in no way affect the liability for Section 301 duties on any subject inputs admitted into an FTZ in privileged foreign zone status, which ensures that applicable duties on subject foreign origin inputs are paid upon customs entry.

The exclusion we seek is necessary because some finished products manufactured and substantially transformed into different products in U.S. foreign-trade zones but which correspond to Chinese origin products listed by HTS line on Section 301 target lists are inappropriately being assessed additional Section 301 duties even though they are and should be treated as products of the United States.

This situation has arisen because, for statistical purposes, existing guidance from U.S. Census and Customs and Border Protection direct FTZ manufacturers to identify on entry documentation the country of origin of their highest value foreign status components.

This requirement, combined with the lack of clear guidance from USTR on the treatment of FTZ-produced goods under trade remedies actions it administers, has inadvertently resulted in products manufactured and substantially transformed in U.S. FTZs being erroneously treated as imports from China if the highest value component, even by a small margin, happens to be Chinese origin. As a result, some FTZ manufacturers are facing tens of thousands to millions of dollars in additional and unexpected duty liability.

The Department of Commerce avoided this problem in the Section 232 cases on steel and aluminum by securing Presidential proclamation language stating "articles shall not be treated upon entry for consumption to the duty established in this proclamation merely by reason of manufacture in a U.S. foreign-trade zone."

However, USTR has failed to include similar language in the 301 trade actions. This omission has directly led to the problem described for FTZ-manufactured products.

For the following reasons, we urge USTR to follow the Commerce Department example and correct this problem by exempting all U.S. origin products manufactured and substantially transformed in U.S. FTZs from Section 301 duties: One, the June 20 and July 17 Federal Register notices specifically described the Section 301 trade actions as the "imposition of an additional 25 percent ad valorem duty on products of China."

U.S. manufacturers in an FTZ make goods in the United States, employing American workers, and adding U.S. domestic value in the same manner as U.S. manufacturers producing the same goods outside an FTZ. Customs regulations and case law confirm that goods manufactured and substantially transformed into different products in a U.S. FTZ are U.S. origin, not foreign origin products.

Therefore, in applying trade remedies, goods manufactured and substantially transformed into different products in a U.S. FTZ should be treated the same as similar products produced in the United States outside an FTZ, and should not be treated as if produced in and imported from a foreign country.

Collecting trade remedies duties on U.S. origin products from an FTZ would have the following unintended adverse consequences: penalize U.S. made products these trade remedies were designed to protect; undermined FTZ program goals by forcing U.S. companies to leave the program and possibly move production outside the United States, with a loss of American manufacturing jobs; damage U.S. manufacturers while providing no negotiation leverage against unfair foreign trade practices --

CHAIR BUSIS: Mr. Autor, if you could finish up, please.

MR. AUTOR: Yes. Potentially result in the assessment of duties on the value of both inputs from a target country admitted into a zone and privileged foreign zone status and all foreign zone status inputs regardless of origin that are not the target of the trade remedy.

We urge you to act swiftly to remedy this unintended but very harmful situation. Thank you.

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

MS. ZUCKERMAN: I have a question for Mr. Barfield. Besides the Korean firm that you cite in your testimony, who are your other competitors in the U.S. market for your finished product?

MR. BARFIELD: At the present, we are the leader in the U.S. for the final product that we produce, but we do have a competitor called Many Fibers. But they are relatively a small -- smaller operation. Our major competitors are import fiber from other countries, various countries.

MS. ZUCKERMAN: Thank you.

MS. HEINZEN: This question is for Ms. Hampl. Is there any product area in which the USCIB believes that higher tariffs on imports from China might improve U.S. competitiveness?

MS. HAMPL: Thank you for that question. As you heard from my comments today and perhaps from previous testimony, the inputs we have received across the board from our membership, and that I've had many, many phone calls on, has been exclusively on opposing the tariffs.

We have not received any input that tariffs in any way would be beneficial to the business. You would have to speak to the companies directly. Perhaps there is a product here or there. But as a broad-based argument, we have certainly not heard that.

And let me just say that, in general, even if there may be a product here or there when it may be tempting to use protectionism in order to derive some sort of benefit across the board, because we were really hearing from multi-sectorial -- we're a multi-sectorial organization. We're hearing from everyone across the sectors. And on balance, this is extremely detrimental, what it is doing to the companies and to competitiveness, especially when you're looking in an area, for example, not just -- I mean, the tech sector, obviously, is primarily targeted here. But you're looking at something like, for example, data centers. That is something that is affecting companies beyond the tech sector.

Every company has -- I mean, you're seeing it around the room. Everybody is operating via email. They're operating in that way. So I cannot stress enough the detrimental effect that our companies have reported that these tariffs would have. Thank you.

CHAIR BUSIS: I have a follow-up question. So, as you know, the United States does not have zero tariffs. We have a range of tariffs, generally lower then our trading partners. We do have tariffs on many goods, including goods from China.

MS. HAMPL: Yes, sir.

CHAIR BUSIS: Is it USCIB's position that the existing tariffs reduce U.S. competitiveness and all existing tariffs should be moved to zero?

MS. HAMPL: We have not specifically addressed that question, of course. We understand that there is a purpose for tariffs in general in the economy.

In this specific instance, the rapid increase on this breadth of products doesn't seem to have any kind of consideration, for example, if you're looking at manufacturing inputs that may require some sort of certification to even switch suppliers, even if there is an intent to do that -- and rest assured, companies are certainly looking into alternatives given these actions and everything that is going on -- but even in those situations, if you're out of the market for even just one year -- and for some products it could be up to three years -- you lose your market share.

And yes, that happening across the board for some companies in the millions or billions of dollars range, that is something that causes a massive decrease of competitiveness in a way that perhaps existing tariffs that have been imposed along the way have not managed to do.

Thank you.

MS. D'ANDREA-YOTHERS: This question is for Ms. Heinman. Are the products that you import from China available from producers in the United States or from countries with which the U.S. has free trade agreements?

MS. HEINMAN: Thank you. The products that we manufacture are not available in the United States or any other country, because the products that we manufacture, again, are manufactured in our wholly-owned facility. We use proprietary know-how to produce them. And then we send them here to add most of the value, over 70 percent of the value, in the United States.

S, we're not able to get it really anywhere else. In the United States, actually, there's no capacity presently to manufacture the kinds of goods that we manufacture. And, again, we want to try to keep it so that we can do it ourselves and keep our proprietary IP within our company.

And the other issue is we could possibly source fabric outside China and the United States in places like India, Pakistan, Bangladesh where the duties are only 6.7 percent. But then we would once again lose control of our proprietary products.

CHAIR BUSIS: Could you describe the -- it sounds like you set up a factory in China. Is that right?

MS. HEINMAN: We did. We set up a factory in China a number of years ago. And we did that because we wanted to compete globally around the world. And at the same time we maintained our manufacturing facilities here. And then again, in the 2000s, after we set up the plant in China, we also started setting up plants in the United States as well.

So, we did set up one there, but many, many years ago. And we own it 100 percent. So, if something -- if we had to change the way we're working now, it takes years and years to set up a supply chain process like this. If we have to change it, it's going to cause really severe damage. It would take us ten years to retool and reinvent ourselves if we had to move the manufacturing from that plant.

But the good thing about it is that we're really adding 70 percent of the value back here in the United States with most everything that's made in the Chinese plant.

CHAIR BUSIS: Could you just -- what

were the factors that led you, if it's not proprietary, to set that plant up in China instead of some United States or some other place?

MS. HEINMAN: Well, we actually have manufacturing facilities -- we have another one in Jordan. And the factors were originally that the labor issue in the United States was a problem. The textile industry basically shut down in the U.S.

Originally, when our company was started, for the first 30 years of our company's existence, we only bought in the USA. Then all of the textile manufacturing plants in the USA closed and shuttered them. I mean, they just closed down all of them.

So there was no choice. We could not purchase fabric or finished product in the United States. So then we had to source it or create our own manufacturing facilities. Which, of course we did do.

But there really was no option. I

mean, travel all through the south. I mean, it's really a shame how the textile industry was pretty much decimated. And so we had to go get it outside of the U.S. But we're very, very happy that we've brought it back. And we really -- or we're pretty much terrified about what's going to happen if we're unable to continue manufacturing the way we are in Thomaston and Union.

MS. KNISLEY: Ms. Beatty, many of the products that are being considered for increased duties are products that are made by NCTO member companies in the United States. Does NCTO support increased duties on such products?

MS. BEATTY: Good question. We are still in the process of vetting the entire list. Obviously, it's a large number of products. But, since these are generally inputs, companies are importing them, doing further manufacturing of a downstream product, there will understandably be some products where there are differing views within the industry. And we have encouraged our membership to take full advantage, as you get a sense from the panel today, to voice their unique concerns and weight in directly as well.

But, as you probably gathered from my testimony, our main focus has been on convincing the government of the merits of focusing on end items as the best way to approach the issue.

It's not to say that there aren't some products on the list that will be useful and that our members make. It's that we see comparatively a lot more benefit to approaching this from the end item perspective.

MS. KNISLEY: Okay. Thank you.

MS. BONNER: This question is for Mr. Little. What would be the impact of the imposition of these duties on your leather seats in the market, generally?

MR. LITTLE: Well, I guess like any consumer product, a 25 percent increase would have a profound impact. The furniture industry is very price-sensitive. We always like to say it's am infinitely postponable purchase, is a new sofa. And you know, all of us in this room have bought furniture before. It's something you can always put off until tomorrow.

So, typically, when either price increase, if there's inflationary issues or there's something in the economy that goes bad, we suffer right away. And we don't tend to recover until much later.

So, it's just a very, very price-sensitive, low margin industry. It's an incredible value if you think about what goes into building a sofa, and you can go out and buy a leather sofa today for a thousand dollars, which is the same as an iPhone.

There's a lot of value in it. But we tend not to get credit from it -- maybe this is our fault as an industry -- from the consumer. So any type of fluctuation in price is felt profoundly.

CHAIR BUSIS: Yeah, I have a follow-up, Mr. Little. So, is there a direct connection between increased duties on Chinese leather furniture and your own manufacturing operations?

MR. LITTLE: Yes. Our manufacturing operations are in China.

CHAIR BUSIS: So you don't make -- does Trayton make furniture in the United States?

MR. LITTLE: No, sir. We warehouse goods here.

CHAIR BUSIS: I see.

MR. LITTLE: We show here and sell and all that, but all the manufacturing is in two facilities in China.

MR. SECOR: This question is for Mr. Saivetz. What percentage of your overall product offering would you estimate is sourced in the U.S.? And how much from China?

MR. SAIVETZ: So, thank you for your question. Roughly about 25 percent up to 30 percent is made in America. And out of China is roughly 45 percent.

MR. SULEWSKI: Hello. This question is for Mr. Zetterquist. You had argued in your testimony that the direct importation of antiquities from China to the United States is illegal under Chinese law.

MR. ZETTERQUIST: Correct.

MR. SULEWSKI: Given that the additional duties apply to country -- let me back up. In your written testimony you had provided a suggested alternative where the tariff only be applied to antiquities directly being shipped from China to the U.S. as opposed to from a third country.

Given, however, that this tariff would be implemented based on country of origin, not, you know, last point of importation, could you talk a little bit more about how the pathway used to import a Chinese good would be relevant?

MR. ZETTERQUIST: I'm sorry, I'm not sure I understood that. The section you're referring to in my written statement, which I didn't have time to deliver, unfortunately, suggested that an alternative course of action could be to include language that says that the duty would be imposed when directly imported from

PRC China.

This would be a symbolic measure that would send a tough-on-trade message to China, but would not punish American citizens and their small businesses.

MR. SULEWSKI: Thank you.

CHAIR BUSIS: Mr. Autor, you oppose the imposition of the additional tariffs on goods that are substantially transformed in the zone. But, as you well know, goods that are substantially transformed in the zone are not ever duty-free; they receive the rate of the final product.

So, do you have an opposition just to the China 301 tariffs applying to goods coming out of a zone? Or is your position that no rate of duty should ever be increased on any product that might come out of a zone?

MR. AUTOR: Okay. I think that this goes to a great deal of confusion about how the zone system operates.

First of all, many final products

coming out of a zone come out zero duty. So it isn't true that zoned products are always subject to an American duty.

What we're saying is that if it is manufactured in a zone it should be treated just like a product manufactured outside a zone. If you're a manufacturer outside a zone and you're using Chinese inputs, you pay the duty. But once that product is substantially transformed in your factory in the United States, it is considered to be a product of the United States. That is how we want U.S. manufacturers operating in the zone to be treated, and that's not how they're being treated. I'll give you an example.

CHAIR BUSIS: Excuse me.

MR. AUTOR: Yeah.

CHAIR BUSIS: Before you give me an example. I mean, isn't the whole point of the zone that they're not treated the same? I mean, otherwise you wouldn't even have the program, right?

MR. AUTOR: Well, they do get a

benefit through certain duty benefits and customs procedures. But that's the whole purpose of the zone. What we're saying is they shouldn't be treated worse than manufacturers outside a zone, which they currently are under the Section 301.

Their having their final product manufactured in a zone is being treated like it is imported from China. And all the foreign inputs, even if the foreign inputs were from the European Union or Canada or Mexico or whatever, are being assessed 301 duties because the final product is being treated like it was imported from China even though it was manufactured in the United States in a foreign trade zone.

CHAIR BUSIS: Okay. Thank you. That concludes this.

MR. BISHOP: We release this panel with our thanks. And we invite the members of Panel 7 to please come forward and be seated.

Will the room please come to order.

CHAIR GRIMBALL: Good afternoon. We have a new addition to the panel. Would you like to introduce yourself? I suppose I should introduce myself, as well. I'm Megan Grimball. I'm from USTR. Please go ahead.

MS. BLEIMUND: Good afternoon. I'm Emily Bleimund. I'm from the Office of Global Affairs, in the Department of Health and Human Services.

CHAIR GRIMBALL: Thank you.

MR. BISHOP: Madam Chairman, our first witness on this panel is Belle Chou, with Shen Wei USA. Ms. Chou, you have five minutes.

MS. CHOU: Thank you. Good afternoon. My name is Belle Chou, President and CEO of Shen Wei USA, Inc., located in Union City, California. I am appearing before you today on behalf of the 60 colleagues in our company, and the millions of Americans who depend on our premium quality gloves, offering hand health technology, to perform their daily tasks safely and efficiently. Shen Wei is a major U.S. supplier of disposable gloves made from latex and nitrile. Shen Wei's operation has been in business for more than 30 years. Our products are widely used in homes and workplaces, such as hospitals, clinics, labs, industrial factories, pharmaceutical/biotech facilities, auto shops, salons, and just about any other places you could name where it is important to protect workers' hands to promote a safe and successful work environment.

The disposable gloves we supply are no longer manufactured in the United States. Raising the tariff on our import from China will force us to raise our prices to customers. This will be disruptive to our operation and will cause us to lose business. I would like to explain several factors that make it impossible for us to quickly switch our source of supply to other countries to avoid the 25 percent duty that is being proposed.

The largest glove manufacturing countries are Malaysia and Thailand. Shen Wei sources less than 10 percent of our products from these countries. Purchases from China represent products that we cannot source from elsewhere.

With binding mutual exclusivity agreements, our Chinese manufacturers protect our company's intellectual property, both patented and proprietary technologies. When we have tried to source from Malaysia in the past, tests of the product showed that our licensees in Malaysia had adulterated the gloves, so that they show little or no presence of our proprietary hand health ingredient.

This was unsatisfactory. Our line designs in China can produce short runs and low MOQs, and this advantage has contributed to the success of startup and small businesses by minimizing their finished goods capital investment. The MOQ requirements from factories in Malaysia and Thailand make it nearly impossible for smaller distributors to purchase directly from the factory, this drastically reducing the ability to be competitive with bigger U.S. companies.

The other countries we have contacted do not have the required equipment capacity and skilled labor required to produce the high-quality gloves that we are known for. Our products must meet occupational safety and dermatological standards, namely UL and SHA. As a result, our unit cost of purchase from China is higher than the gloves we purchase from alternative sources because the Chinese-produced glove is of premium quality. Our source in China is the only SA 8000 accredited facility for producing disposable gloves.

No factory that we have contacted in Malaysia or Thailand has such accredited requirement. We have a number of customers entering into contracts for one to three-year periods with hospitals, group purchasing organizations, and government agencies.

For these contracts, our gloves must meet specific requirements, which are not otherwise widely available. The proposed 25 percent tariff will cause serious disruption in our supply chain. An excellent example is one of our customers, BOSMA Enterprises.

We supply them with our hand health protection gloves produced in China. BOSMA is a non-profit organization, which employs more than 100 vision-impaired people in Indianapolis to repackage products for distribution to the Veterans Administration. Shen Wei continues to invest time and money on product development that provides industry solutions. Regulations currently implemented already impose high product and registration fees, with the 25 percent tariff, it will be detrimental. This will force us to cut research and development budgets that drive success of a small business.

I am proud to say that we are about to launch a new product in the United States, biodegradable gloves with hand health protection. These gloves, which we plan to import from China, underwent 945 days of testing to support our biodegradable claim.

Because of the long testing cycle needed for this product, there's no other ready alternative available to replace the product for the U.S. customers. My company had planned on hiring five to ten more staff to support this new product launch.

Due to the proposed tariff increase, we have had to place this hiring plan on hold. In conclusion, since 90 percent of our products are sourced from China, and it is impossible for us to find new sources of supply quickly, but instead, we require 9 to 12 months to make these switches, and with the unknown variable of being able to meet the high quality that is expected from our products. The proposed tariff will greatly disrupt our customers, who depend on our steady supply. We are likely to lose sales, and I regret to say that as a result, we will likely have to downsize our staff.

I respectfully appeal to you that the products listed in our request to appear be removed from the list of products from China subject to the proposed 25 percent tariff. With various HTS codes, they are nitrile and latex gloves, nitrile and latex industrial, including household gloves, vinyl exam industrial, chloroprene exam, chloroprene industrial --

CHAIR GRIMBALL: Excuse me; could you please conclude?

MS. CHOU: Thank you for this opportunity to speak with you, and I welcome your questions. Thank you.

MR. BISHOP: Thank you, Ms. Chou. Our next witness is Steve Frazier with HLP Klearfold. Mr. Frazier, you have five minutes.

MR. FRAZIER: Hello. My name is Steve Frazier, and I'm the president of HLP Klearfold, the world's largest manufacturer of plastic folding cartons for consumer products. Plastic folding cartons are a very small component of an estimated $300-plus billion U.S. dollar market for folding cartons and a very small component of the HTSUS Subheading, Miscellaneous Subheading 3923.10.90.

Plastic folding cartons are a type of a secondary retail packaging produced from, primarily, PET or polyester, similar to the package that I have here, that you may have seen in the marketplace.

Our company was incorporated in the U.S. in 2003, and is a wholly owned of Hip Lik Packaging Products, a Hong Kong based company, which has been operating for almost 50 years. Our primary manufacturing facility is in Ping Shan, Shenzhen, and Southern China.

We provide plastic folding cartons to major consumer products companies, such as Colgate, Revlon, L'Oreal USA, Mars Wrigley, and Titleist, as well as some 200-plus other U.S. companies. We believe that our company supplies approximately 90 percent of the folding cartons imported from China into the U.S., and estimate that Chinese imports of plastic folding cartons into the U.S. are less than $40 million. Until ten years ago, the largest supplier of plastic folding cartons to the U.S. was the U.S.-based MeadWestvaco Corporation. In 2009, MeadWestvaco exited this business segment, closed two U.S. factories, and laid off 200 plus employees.

This left a significant void in the market, and there were no U.S. companies with the technical capacity or resources to have replaced MeadWestvaco in the U.S. marketplace. Myself and several other MeadWestvaco employees joined HLP Klearfold, repositioned our company, and satisfied the void in the U.S. market that could not be filled domestically.

We believe it is important to distinguish our company as the world market leader and technology leader for this segment. We are not a low-cost, low-quality knock-off producer growing our U.S. market share by undercutting prices of U.S. producers.

We have developed patented and proprietary and vertically integrated technologies that allow us to produce plastic folding cartons with very high quality and outstanding performance characteristics not available from U.S. producers. Although we have a technology advantage in the marketplace, this technology is not strategically important or related to the Made in China 2025 program. As it relates to the security of U.S. intellectual property, one of the original concerns of this tariff initiative, please note that we own, through purchase or application, several U.S. patents and trademarks.

We pay the U.S. Government several thousands of dollars each year for renewal and maintenance costs and are actively pursuing new patents and trademarks. We respect the USPTO process and have no issues or concerns with the rigors of application or ongoing costs. However, once being granted a U.S. patent, it seems counterproductive, and otherwise unfair, to add an additional tariff to the ongoing costs.

With no U.S. company capable of doing what we do, to assess a tariff on the products will only rise the costs to our U.S. or our American customers and have a negative impact on their cost of goods. The imposition of a 10 percent tariff would render our already higher cost packaging cost prohibitive for these customers and could force them to switch to less expensive, less effective packaging, which would hurt their sales and put the future of our U.S. employees' jobs in jeopardy. Leveling a 25 percent tariff would be devastating to our U.S. business and largely remove this type of packaging from the marketplace.

Given the lack of U.S. manufacturing alternatives, we believe a tariff would not accomplish the desired purpose and, instead, will have an unintended negative consequence on U.S. consumer product manufacturers and, therefore, American consumers.

We therefore request an exclusion from HTSUS Subheading 3923.10.90 from the tariff initiative. Another acceptable option, given the narrowness of the segment and its insignificant impact on the total tariff initiative would be to exclude plastic secondary packaging from the miscellaneous subheading and create a new specific subheading, under 3923.1000, specific to plastic folding cartons. Thank you.

MR. BISHOP: Thank you, Mr. Frazier. Our next witness is Marc Jackson, with Teckrez, Incorporated. Mr. Jackson, you have five minutes.

MR. JACKSON: Thank you. Hello. My name is Marc Jackson. I am the president of Teckrez, a company based in Jacksonville, Florida. Thank you for the opportunity to speak to your panel today. Teckrez produces a line of resins at contract manufacturers in Asia.

We produce the resins in Asia because that is where the raw materials are for these particular types of products. It is our position that the tariffs from List 2, on 3911.10, hydrocarbon resins, and List 3, on 3806.10, 20, 30, and 90, rosin resins, will negatively impact hundreds, if not thousands, of small to medium sized manufacturers in the United States.

These companies manufacture adhesives, sealants, and coatings. Resins are key raw materials in all of these products. The independent U.S. producers of these products must compete with large multinational corporations.

Large multinational corporations have plants all over the world. If raw material costs in the United States increase, then U.S. based formulators will not be able to compete. In fact, I visited with one of these large multinational companies last week, who told me they intend to transfer some of their production of diaper adhesives from Greenville, South Carolina to a plant in Mexico. Small and medium sized U.S. producers of adhesives, coatings, and sealants need resins produced in China to compete with large multinational companies who have plants all over the world.

The second reason is large multinationals buy resins from under high contract -- I'm sorry, high volume, low price contracts. Without a cost effective alternative for small and medium sized U.S. producers, they cannot operate their plants anywhere close to the low operating costs of these much larger corporations.

Small and medium-sized U.S. producers are a healthy segment of U.S. manufacturing. They employ tens of thousands of people across the United States. The impact of tariffs of 25 percent on 3911.10, hydrocarbon resins, and 3806.10, 20, 30, 90, rosin resins, will negatively impact the health and success of an important block of U.S. manufacturers. Thank you again for the opportunity to speak today.

MR. BISHOP: Thank you, Mr. Jackson. Our next witness is Tom Jarvis, on behalf of Yanjan USA, LLC. Mr. Jarvis, you have five minutes.

MR. JARVIS: Thank you. I'm Tom Jarvis, Winston & Strawn. I'm appearing today on behalf of Mr. Gene Konczal, who's the chief financial officer of Yanjan. He regrets he's unable to be here in person today, but he did submit his testimony on August 9th, and I believe you have that in front of you.

Yanjan is a startup manufacturing business located in Statesville, North Carolina.

That's about 40 miles north of Charlotte. It's in the recently redistricted North Carolina 13th Congressional District. It's primarily a rural county, Iredell County, but manufacturing is making a resurgence there, and these are relatively high paying, important jobs to that geographic area.

Yanjan is in the business of making next-generation cloth-like coverings for absorbent garments, which is a euphemism for feminine hygiene products, baby diapers, and adult incontinence products. There's a very large volume of these products are actually produced and consumed in the United States. Yanjan is making next-generation cloth coverings, which have superior performance characteristics. Currently, Yanjan is in the process of establishing its manufacturing operation.

Orders have been placed for dedicated manufacturing lines. There's one in place. I saw it two weeks ago. A total of six will be in place by the end of the year if the current plans are permitted to go forward, and they will be in full production, with 60 employees, by that point.

Sixty employees is a small number, when you look at the labor force of the United States, but if you look at a particular community, 60 good paying manufacturing jobs in an area that's been historically dependent on subsistence farming in many instances is a significant issue.

Yanjan seeks removal of just two of the approximately 6,000 tariff classifications that are at issue in this round. Those are classifications 3206.19.0000 -- that's for pigments and preparations based on titanium dioxide -- and also HTSUS 3901.40.0000. That's ethylene-alpha-olefin copolymers, which you may not be familiar with, unless you were a chemistry major in college, but what it is is linear low density polyethylene. These are both raw materials used in manufacturing these cloth-like coverings that are used for adult absorbent garments.

The issue here is that these feed stocks are used by manufacturers in the United States, like Yanjan, so the employment is here, in the manufacturing step, although some of the raw materials are sourced from around the world.

Critically, for Yanjan, China is the sole source available for some proprietary blends of materials that can only be used with these machines. The machines are designed for the materials, and those machines become inoperable without the proprietary materials, so Yanjan does not have the option of switching to non-Chinese suppliers.

It purchases those proprietary feed stocks for that specific equipment. Imposition of additional tariffs on these two classifications would disrupt Yanjan's startup manufacturing operations in Statesville and, obviously, the employment benefits that we're all looking forward to. Ladies and gentlemen, Yanjan respectfully requests that these two tariff classifications be removed from the Section 301 Tariff Proposal List. Thank you.

MR. BISHOP: Thank you, Mr. Jarvis. Our next witness is Shawn Xu with Lianda Corporation. Mr. Xu, you have five minutes.

MR. XU: Good afternoon. My name is Shawn Xu, co-president of Lianda Corporation, a small, family owned business, located in Twinsburg, Ohio. Lianda is a distributor of high performance elastomers and specialty chemicals. Our primary focus is the rubber and plastics industry, which we have served for over 23 years.

Our business model is to provide high quality products to our U.S. customers, to enable them to be more competitive, in terms of performance and cost. Lianda previously testified before the Committee in July and appreciates the opportunity to appear again to express our concern about the tariffs. There are 15 HTS subheadings appearing on List 3 that Lianda imports under. They are listed on Page 3. We believe the imposition of 25 percent duty will have a significantly negative impact on our small company and its many customers. The increased cost could cause Lianda not to be able to fulfill its contractual obligations to its customers. It could lead to a shift in demand for our products, a reduction of our U.S. based workforce, and a halt in the growth of U.S. born/bred company.

In effect, any additional tariff will have the very likely effect of removing Lianda's ability to sell its products in the U.S. market. Some of Lianda's products covered under List 3 are made only in China. Some are currently in short supply.

Therefore, increased selling price, as a result of 25 percent tariff, will be passed straight to our customers. The extra tariff, in these cases, will not provide any incentive for the Chinese government to change its trade policies or practices.

On the contrary, the additional tariff will only increase costs of products in the U.S., hurting supply stability and reducing the competitiveness of our U.S. customers in the world market. While there is not sufficient time to speak about all of our products captured in List 3, I will provide a couple of examples. One, dicumyl peroxide. This is a specialty chemical often used as a high temperature curing agent in rubber and plastics applications. To our knowledge, there's no production of this particular chemical anywhere outside of China.

The Chinese company we import from is the largest producer of this material in China and in the world. Thus, the increased cost as a result of any retaliatory tariff will only cause the market price in the U.S. to increase and provide no deterrence to Chinese export.

Also, since peroxides are hazardous chemicals, any new production in U.S. or any other part of the world is very unlikely. Two, chlorosulfonated polyethylene, or CSM. This is a synthetic rubber often used for rubber based wire and cable, hose, and belt products.

There is only one manufacturer outside

of China that produces CSM. Its capacity is not enough to meet current U.S. market demand. Therefore, we have no other option, other than to import material from China to meet existing customer needs.

In both examples above, where global supply is extremely limited and is mostly from China, imposing 25 percent tariff will neither deter, nor reduce, import from China, and will only cause our company and our U.S. customers to pay more. This, in the end, will disproportionately harm the interests of U.S. companies and consumers.

Similarly, for other Lianda products captured under the proposed HTS subheadings, the extra tariff will also increase our customers' costs. In addition, all products Lianda imports have been in the market for many decades and are not related to any advanced technology and Made in China 2025 initiative.

We believe the proposed tariff, as it relates to the attached list of HTS subheadings, reduce the competitiveness of U.S. producers. To remain competitive, many of our U.S. customers may shift production of their high-value downstream products to other countries, where they would not be subjected to the tariff, causing job loss in the U.S.

Therefore, we respectfully ask the Section 301 Committee to remove these HTS subheadings from your proposed List 3, for the sake of maintaining U.S. manufacturing competitiveness, protecting U.S. jobs, and ultimately protecting U.S. consumers' interests. Thank you very much.

MR. BISHOP: Thank you, Mr. Xu. Our next witness is Colton La Zar of the National Candle Association. Mr. La Zar, you have five minutes.

MR. LA ZAR: Thank you for the opportunity to testify today. I am Colton La Zar, trade committee chair of the National Candle Association, also known as the NCA. Founded in 1974, the NCA is a major trade association, representing the majority of the U.S. candle manufacturers and their suppliers.

The mission of the NCA is to serve and represent the interests of its approximately 100 candle manufacturing members in the United States and to promote safe products and healthy environment for the industry.

While the NCA fully supports the Administration's efforts to combat Chinese government's harmful technology transfer and intellectual property practices, I am here to testify and ask the Administration to remove, specifically, glass candle holders and paraffin wax from its proposed Section 301 list of Chinese goods subject to an additional 25 percent in duties. The NCA requests removal of these tariff codes covering these items from the proposed Section 301 list for several reasons.

The most important reason is that the proposed tariffs will have the unintended effect of causing severe economical harm to the U.S. candle industry. In particular, small and medium size U.S. manufacturers who rely on imports of glass candle holders and wax for producing candles in the United States will be harmed.

The truth is that for an already struggling industry, an increase of 25 percent in duties of main materials used in production threatens to be the breaking points that shifts U.S. manufacturing operations overseas, resulting in loss of American jobs.

I have brought to the hearing samples of glass-filled candles that we are proud to say are made in the USA. The shift in production of filled candles overseas would not only be bad for the U.S. candle making industry, who are responsible for creating thousands of American jobs across the country, but it would also result in the harm to U.S. consumers, in the form of low quality products. The thousands of jobs created in the U.S. by the NCA members are good paying jobs, and our members' employees take pride in making high quality products that are both safe for the consumer and healthy for the environment.

For instance, many NCA members require glass vessels used in produced filled candles to be compliant with ASTM Standard F2179, in order to handle the rapid heating and cooling involved in the production process, without the glass breaking or cracking.

To the best of our knowledge, we do not believe there is sufficient available quantities of the U.S. manufacturing ASTM F2179 glass candle holders to meet the current demands of the entire U.S. candle industry.

We are skeptical that foreign producers of filled candles would be as careful as U.S. producers in ensuring that the glass candleholders used in production are the higher quality ASTM compliant glass candle holders. Also as important, with the imported wax, production yield of paraffin wax in the U.S. has been greatly reduced. Simply put, there is not a sufficient supply of domestic paraffin wax to meet the demands in the U.S. The NCA also recognizes the concern stated in USTR's findings, citing specifically the Chinese government goals published in its Made in China 2025 policy notice.

We respectfully submit that glass candle holders and paraffin wax are not the intended targets of the China policy. The findings have specifically expressed concerns that implementation of Made in China 2025 will unfairly benefit and bolster technology development in certain key sectors in China, making it difficult for the U.S. industries in those targeted sectors to compete.

The ten priority sectors identified in Made in China 2025 plan include, for example, robotics, biomedicine, and high-performance medical devices, to name a few. We are not any of those. Thus, removing these does not undermine the intended benefit of Section 301. The NCA asks the administration to remove glass candle holders and paraffin wax from its proposed list of products subject to the 301 tariffs for all of these reasons. Dear Committee Members, thank you, again, for the opportunity to testify today. NCA will supplement this testimony, as necessary, with the submission of post-hearing comments, and I look forward to any questions.

MR. BISHOP: Thank you, Mr. La Zar. Our next witness is Mark O'Bryan with TricorBraun. Mr. O'Bryan, you have five minutes.

MR. O'BRYAN: Thank you. Good afternoon. I'm Mark O'Bryan. I'm the chief operations officer of TricorBraun --

MR. BISHOP: Lift your mic a little bit, please.

MR. O'BRYAN: -- located in St. Louis, Missouri. TricorBraun was founded in 1902 as a private company that, for many years, has designed, purchased and sold various rigid and flexible packaging products and has been a leader in the consumer and industrial packaging industry.

We buy approximately $1 billion worth of packaging every year. Of that, 75 percent is manufactured in the United States, 25 percent from abroad, including China. TricorBraun is specifically concerned with the five tariffs listed in my testimony, which include glass bottles and jars, plastic sacks and bags, plastic stoppers, lids, and caps, plastic bottles, flasks, and pumps and sprayers. TricorBraun works with its manufacturing partners, domestically and globally, including in China, to produce the products covered by these HTSUS subheadings.

These products are designed in the United States, and TricorBraun provides the molds for these designs to its partner manufacturer for the production of these products, both domestically and abroad.

The proposals to increase tariffs on these packaging items would injure our company and small to mid-sized U.S. companies who source these items from us, without providing an identifiable benefit with regard to intellectual property, investment rights, and other matters, which the U.S. government is correctly concerned with.

I'm here today to discuss the reasons why these injuries will occur without any benefit to the United States. First, shifting production of these non-U.S. products to U.S. manufacturers is simply not an option. U.S. manufacturers do not always have the capacity, equipment, or flexibility to produce the volume and variety of products that TricorBraun imports from China, and U.S. manufacturers have not invested in their capacity or flexible manufacturing capabilities required to produce these products.

For example, consider that between 1985 and 2011, the number of U.S. glass plants decreased by 58 percent, dropping from 110 plants to 46 plants. In 2018, two more glass plants have closed. Consider, also, that in the U.S., it takes approximately three years to bring a new glass furnace online.

Even with tariffs in place, there's no reason to believe that there will be increased capacity in the U.S., in light of factors like the historical decline in glass plants and the challenges of adding new capacity.

On top of that, many other countries, including Mexico, are likely to be viable options for immediate capacity expansion. Second, our business is not one where a company such as TricorBraun can simply place an order with an alternative supplier and obtain the necessary products from a secondary source. TricorBraun has invested in approximately 400 molds that are designed to run specifically on the equipment from our Chinese manufacturing partners, just like we do with our U.S. partners. It would cost TricorBraun millions of dollars to shift mold locations, replicate production in other countries.

Even if TricorBraun were to move production to another country, we and our 5,000 customers would have to endure a time-consuming trial process, in addition to the direct cost. Third, the affected products sold by TricorBraun are extremely price sensitive, and an immediate increase in cost of these products would severely diminish our ability and our customers' ability to compete with foreign companies.

Foreign manufacturers who sell similar products directly into the U.S., and with whom we compete, would benefit immediately from a competitive pricing standpoint. In addition, because these packaging products are often the highest variable cost for our customers, an immediate increase in their costs would provide a competitive advantage to foreign companies with whom they compete, such as foreign wine and spirit bottlers, who sell finished products into the U.S. One of our many customers, A to Z Wineworks, a company in Oregon, has told us this, quote, the proposed tariffs would substantially increase our cost of goods on a key raw material, our glass bottle.

This would put this important input into wine production well above world market prices for wine bottles, while the finished wine would continue to be imported without any change to their tariffs. Based on the highly competitive wine market, wine buyers are not willing to absorb price increases.

A 25 percent cost increase on the glass bottles would be unsustainable, and we are deeply concerned about its effect on future investment in the U.S., on our profitability, and our ability to compete with foreign wines, both in the U.S. and abroad.

Glass bottles are the next largest component in our supply chain costs, after the fruit costs and labor costs, unquote. Ultimately, foreign suppliers of these products, whether they're manufacturers or resellers of packaged goods, undoubtedly will step into the void created by our and our customers' diminished ability to compete. The proposed tariff poses a severe threat not only to the business of TricorBraun, but also to the important U.S. wine industry, food industry, cosmetics and personal care.

Finally, with the implementation of

tariffs, we expect our company to suffer economic losses and, in turn, the number of American jobs that we create in designing the products, commissioning molds, and distributing the products to U.S. customers to decrease in proportion.

For these reasons, we request the USTR to exempt the five HTSUS items that I listed at the beginning of my testimony from any additional duties that it may impose under Section 301. Thank you for your attention.

MR. BISHOP: Thank you, Mr. O'Bryan. Our final witness on this panel is Matt Rowan with the Health Industry Distributors Association. Mr. Rowan, you have five minutes.

MR. ROWAN: Good afternoon. My name is Matt Rowan. I'm president and CEO of the Health Industry Distributors Association, or HIDA. I want to thank you all for the opportunity to testify on behalf of our members today. HIDA members are medical-surgical distributors. We deliver medical products and supplies used in everyday medical services and procedures, ranging from gauze and gloves to diagnostic laboratory tests and capital equipment.

Our members' customers include over 200,000 physician offices, 6,000 hospitals, and 44,000 nursing homes and extended care facilities throughout the U.S. Our membership shares the goal of improving healthcare quality and managing costs, and tariffs on these products will erode the ability of the healthcare industry to deliver on these goals.

We urge the USTR 301 Committee to remove all products related to healthcare from the proposed tariff list. Any disruption to this critical supply chain erodes the healthcare industry's ability to deliver the quality and cost management outcomes that are key policy objectives of the country. These products are essential to protecting healthcare providers and their patients every single day. The healthcare products on the proposed list are used widely throughout healthcare settings and are a critical component of our nation's response to public health emergencies, such as Ebola. Because they are used in virtually every healthcare setting, these tariffs will drive healthcare costs up across the board.

Also, small and medium sized American businesses, suppliers, and providers will be disproportionately impacted. The list of proposed products includes many healthcare products that are critical to protecting healthcare workers and their patients, products like gloves, isolation gowns, specimen bags, wet wipes are used every day, in virtually every patient encounter.

They're used widely in healthcare settings from hospitals to nursing homes, doctors' offices, surgery centers, and laboratories. These products represent a critical barrier to preventing infections and ensuring quality outcomes for patients. With infection prevention as a key initiative throughout healthcare, usage of these products should be encouraged, not inhibited by tariff associated cost increases or disruptions. Additional tariffs and their resulting increase in price for these products should be avoided. Many of the products on the proposed 301 tariff list are critical to an effective response during public health scenarios.

Placing tariffs on these products would lead to product shortages and further exacerbate public health challenges during times of crisis. It would significantly limit the ability of all levels of government, as well as the commercial healthcare supply chain, to adequately support response efforts during emergency events.

If the proposed healthcare related products are included in the final USTR 301 list, it will increase the cost of healthcare and limit patient access to essential products, many of which support everyday medical procedures from annual wellness visits to major surgeries.

The healthcare supply chain is highly efficient and often serves providers with just-in-time deliveries. We have been able to reduce the cost of some products substantially, compared to their cost several years ago. These successes are due to the implementation of a lean, efficient, and global strategy, which includes sourcing products from China. While some of the products on the tariff list are made in other countries, there are usually more expensive options, and there are simply not enough products to fill the resulting gap created by eliminating China as a source.

Any ability of other suppliers to ramp up production would take up to one year or more, leaving the supply chain particularly vulnerable to chronic shortages. The immediate result will be a spike in demand, an increase in cost, and product shortages of critical supplies. Forty percent of HIDA members are considered small businesses by the Small Business Administration, with revenues of $7.5 million or less.

Medical-surgical distributors have small margins, typically around 2 percent. A 25 percent tariff on healthcare related products they sell would potentially cripple these businesses. Many members specialize in products that are sourced mainly from China and finding other sources may not be possible. The resulting gap in product inventory will be harmful and may not be able to be overcome, as there are not enough supply options to fill the gap. In conclusion, HIDA believes that including healthcare products on the final tariff list will negatively impact the safety of healthcare providers and their patients, as well as our ability to respond in a public health crises.

Tariffs on healthcare products will ultimately drive up healthcare costs for every American. HIDA appreciates the opportunity to share our concerns with the USTR 301 Committee, and we urge you to, once again, remove all healthcare products from the proposed tariff list. I'm happy to provide any additional information you need and answer any questions you might have. Thank you.

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

CHAIR GRIMBALL: We'll begin in a few minutes. Thank you for your patience. Ready.

MS. BLEIMUND: Thank you. This question is for Shen Wei. Could you specify what is your company's total market share in the United States and whether any of your competitors source from countries other than China, Malaysia, or Thailand?

MS. CHOU: What makes our company special is that we specialize in customizing products for customers and we're leading innovations. We hold several patents in the United States and internationally. These products can only be made in China at this time.

This year, we have projected -- we had projected for more than 25 percent growth, but since the trade talks with China, we had asked our partners in China to withhold the expansion, and we tried to source from Malaysia and Thailand at this time. Currently, our sales year-to-date, has already dropped 10 percent.

That's because our customers declined to accept products from these other countries because of quality issues. In general, in the premium product segment, we see no competitors in our space, but in general, I think we represent probably just about 1 percent of the overall category of disposable gloves into the country. But for our own category, we're the leader. We provide new products to customers, and our customers would depend on us to differentiate their products, to compete with bigger companies. Thank you.

MS. ZUCKERMAN: This question is for Mr. Frazier. Are there non-Chinese suppliers for Klearfold's plastic cartons, other than owner Hip Lik?

MR. FRAZIER: Within the U.S.?

MS. ZUCKERMAN: Or internationally.

MR. FRAZIER: Of course, within Europe and within the U.S., there are people that compete in our space. It's typically a very -- considered a very, very small space in the folding carton industry. It's got a very high capital barrier to entry.

However, because it's perceived as a premium, a lot of times, competitors that are on the fringe of our capability will become inspired, so to speak, to try to get into our market. The issue is that they don't have the capabilities or the technical capacity.

By that, I mean the ability to combine printing techniques, the ability to provide the structural integrity, and the technology that we employ around the creasing of our material. Given the high barrier, the capital barrier for entry, we do -- but to answer your question, we do have competitors within the U.S. They're very, very small. They tend to come and go, and they tend to be general folding carton or paper folding carton suppliers, who have a desire to supplement their business by getting into the plastic portion.

MS. D'ANDREA-YOTHERS: This question is for Mr. Jackson. It's actually kind of multiple questions. Could you explain the difference between resins produced by China and those produced in the U.S. and Brazil?

Secondly, why are Brazilian and U.S. resins not suitable for the type of products rosin resins produces? Has your company looked into whether U.S. or Brazilian companies are able to produce resins that meet your company's needs? If so, what were the results of that research?

MR. JACKSON: That is a lot of questions. I'll do my best to try to give you a succinct answer. First, I have to say that I really, really wanted to come to speak to you in July about the hydrocarbon resins, which were on List 2. Unfortunately, we were not able to, I guess, get our application in on time on that. Hydrocarbon resins and rosin resins are really very intimately connected. They're sort of two sides of the same coin. Frankly, I feel like they should be considered on the same list. I'm not sure why they're separated.

But, having said that, and without trying to get into too much of a dissertation on the types of resin here, the rosin that's produced in the United States is mostly a byproduct of paper making, and it is produced in very -- these are the rosin resins, now -- these are very high volume, extremely low cost production processes.

The types of rosins that are produced in Brazil and China are very labor intensive, and they're literally tapped and extracted from a living tree, and then refined. Brazil does present a competitive option to China. Definitely, those products can be interchanged.

However, there are certain supply chains set up and existing customer formulations that are based on Chinese produced materials. Switching from one to the other will pose some obstacles and hurdles. For those companies that are currently using Chinese made rosin resins, they will certainly be placed at a competitive disadvantage. Before I finish, I just want to comment on the hydrocarbon resins that are not on List 3, but are on List 2. The reason why we really need Chinese made hydrocarbon resins is because the feed stocks to make hydrocarbon resins is not really available anymore in the United States.

That is because of the very abundant low-cost natural gas that we have in the United States. We're all benefiting from that, but the fact is there's no more petroleum byproducts that come from the refining of crude oil. For that reason, hydrocarbon resins made in China really are necessary for U.S. adhesive producers. Thank you.

MS. KNISLEY: Mr. Jarvis, my questions are based on written testimony that were submitted ahead of time, so I'm going to use some of those questions.

MR. JARVIS: Thank you.

MS. KNISLEY: What prevents Yanjan from using substitute materials as feed stock in their manufacturing process? The next question is can you use machinery that's only been used to assemble products with the exact specifications of the Chinese raw material? Then are there no U.S. made products that can be used as feed stock in you all's manufacturing process?

MR. JARVIS: Thank you. The production of these next generation cloth-like fabrics is a high technology process. It depends upon the use of multiple raw materials or feed stocks, two of which are proprietary to the suppliers that manufacture the equipment.

The equipment is designed to use these two proprietary feed stocks. One could speculate whether U.S. companies could reverse engineer those Chinese proprietary blends and, perhaps, infringe their IP rights and seek competing products but, of course, that's exactly the kind of behavior that these 301 sanctions are designed to discourage.

I think, as a practical matter, these are the only known feed stocks available for the machinery that's already been purchased and is in the process of being installed. Alternative machinery is not known because this is a proprietary third generation, or next generation, I guess we should say, product. The investments have already been financed and allocated, and I think purchase agreements were in place for it, so I don't think it's possible to switch to alternative machinery. If the question was could the machinery be used with different feed stocks to produce a different product, I frankly don't know the answer to that question, but what I do know is that the existing contracts are for this specific product, so alternative products would not be commercially a financial alternative.

Then, I guess your last question was are there no available U.S. manufactured products? There are none that I'm aware of, and I've had an opportunity to inspect the plant. I've seen this process -- none that I'm aware of that compete with this next generation product on the comfort and softness dimensions of the cloth-like fabric.

MS. BONNER: Mr. Xu, in reading your testimony, it suggests that most, but not all, of the elastomers and chemicals that your company uses in its products are sourced from China. In your company's over 23-year history, has it ever used a U.S. or non-Chinese supplier for the materials that your written and oral testimony relate to?

MR. XU: Yes, actually, as of yesterday, we actually signed a sole distribution agreement for a zinc oxide product from Thailand, so our company does distribute materials from other parts of the world.

MS. BONNER: The ones that you're specifically requesting our Committee review, have you sourced those, ever, from alternate sources outside of China? If so, do those companies or places that you've sourced before still provide an option?

MR. XU: For historical reasons that myself originally come from China, so going to China and source product from China is naturally my strength. I have been to, for example, Russia. I found it's very difficult to do business there.

Of course, China is a large country. There is a lot of industry, a lot of people trying to make different products, so there are just so many availabilities of product there. That's probably the main reason that our company's products are mainly from China.

MS. BONNER: Thank you. Thanks so much.

CHAIR GRIMBALL: This question is for Mr. La Zar. I can't see your name. Hello. What quantity do you believe -- what quantity can the U.S. industry support with respect to the production of glass candle holders, on one end, and then separately, paraffin wax?

Can glass candle holders, specifically, be obtained from other countries, such as Mexico, which I think someone else on the panel mentioned manufactures glass?

MR. LA ZAR: To answer that, not enough for the industry. Percentage-wise, I can follow that up in my notes and submit, but for sure, not enough for the industry because the glass manufacturers here are not focused on the quality glass that we need.

They'd be more focused on glass they can mass produce for the industry, such as beer bottles, something they can automate better and be more competitive. Glass candles that we have, the ASTM standard, we don't make nearly as many as it would be lucrative for them to do. Therefore, they don't have as much to offer to us. As far as the wax goes, the industry here, the refineries have revamped, over 20-30 years, with new equipment. The byproduct wax is a much smaller percent now, somewhere in the neighborhood of 25 percent less than it would have been years ago. Therefore, they don't have enough wax for the industry, and we must import it from China.

CHAIR GRIMBALL: Thank you.

MR. LA ZAR: You're welcome.

MS. PETTIS: I have a question for Mr. O'Bryan. Does TricorBraun have any other molds? That is you talked about 400 molds that are used in manufacturing equipment for China, but you also have molds, obviously, that you use in the United States. If so, approximately what percentage of your production requirements might remain in the U.S. glass plants, that the remaining U.S. glass plants be able to fill?

Has TricorBraun explored whether any of your molds that you mentioned in your testimony -- are any of them compatible with equipment by non-Chinese manufacturers, such as those in Mexico or anything like that, or are they very specific to China?

MR. O'BRYAN: They're very specific to the equipment that they're running on in China; that's correct. We pay to build those molds, to make a specific design bottle for what the customer is looking for. The small to mid-size customers that we sell to, they compete against the big guys.

To differentiate their products on the shelf, they're looking for something different, so we are that source. We source those domestically, in some cases, when it makes sense, but we may source those offshore. To help them, we pay for the molds to get that done.

It's critical to differentiate their product. Given the quantities that they're buying, how they pack them, so that they can do the filling locally, all those factors come into play as to whether we would choose China, etc.

It's just very hard, once you've made that decision, to go into those facilities, take those molds away, reconfigure them to put them on another machine, in another location. That's the challenge that -- it's just very, very costly.

MS. PETTIS: Okay, thank you very much.

MR. MCCARTIN: I have a follow-up

question. I wanted to follow up on your example of the A to Z winery. You seem to suggest that if these tariffs go into place that you will not be able to supply them anymore, that winery, because your wine bottles would be too expensive.

You also seem to suggest that they would then have to, perhaps, source their wine bottles from somewhere outside the U.S., such as Mexico, if I understand your testimony. I'm just wondering why -- you mentioned that there's 44 glass plants in the United States. Why would not one of those be able to supply the A to Z winery if you're wine bottles were too expensive?

MR. O'BRYAN: If they wanted to change the bottle type that they're filling, they could go buy from a U.S. manufacturer. I think the bigger challenge is just the amount of bottles that they buy, the boxes that they put them in, is all configured to the supply chain we've set up in China.

They're competing against the larger brands, like Constellation, et cetera, that are buying in bulk, similar to what Mr. La Zar said for his candle guys. They're just not going to be able to give the attention to these smaller wineries that they're looking for. It then just de facto becomes a 25 percent increase in the cost of their goods.

MR. SULEWSKI: This question is for Mr. Rowan. Your submission had stated that China supplied 14 percent of the overall U.S. market for medical-surgical equipment. What percentage of the products referenced in your submission are imported from China? Are any of these products produced in the United States?

MR. ROWAN: The vast majority of what we call personal protective equipment -- so if you think about gowns, gloves, things of that nature -- are sourced in China, particularly isolation gowns. I don't have a percentage number for you, but I can tell you it's very, very high.

I think that same testimony, which I think might have been from Round 2, referenced a survey by the U.S. Department of Commerce a few years ago that identified deep into the 80 and 90 percents for some of these product categories. Again, what we term personal protective equipment for the healthcare worker, if you see, from the news report, the response workers from the Ebola crisis covered in head to toe, it's all that gear.

MR. BISHOP: We release this panel, with our thanks, and we invite the members of Panel 8 to please come forward and be seated.

Will the room please come to order?

Madam Chairman, our first witness on this panel is Dr. Daniel Fabricant with the Natural Products Association.

Dr. Fabricant, you have five minutes.

DR. FABRICANT: Thank you, and thank you for the opportunity to testify. I know it's been a long day.

NPA was founded in 1936 to promote and protect the unique values and shared interest of retailers and manufacturers of national nutritional foods -- natural nutritional foods and natural products. We're the oldest trade association, oldest and largest trade association in the space since 1936 and we represent over 1,100 members including but not limited to retailers, manufacturers, wholesalers, distributors of natural products including foods, dietary supplements, health and beauty aids. NPA is the biggest trade association for the supplement industry, which is an estimated $45 billion-a-year industry in the U.S.

What's important in the context of today's hearing is to emphasize that our industry is made up of a number of small and medium-sized businesses, and while the industry has existed for many years, it has only recently, really since the late '80s, transformed into a major engine of economic growth, customer satisfaction and job creation in the U.S.

Today America is the undisputed global leader in finished natural products and dietary supplements. We are the champs. But that leadership position could be lost forever if these tariffs are put into effect.

There are three main reasons why our members are so concerned and why we're seeking exemptions or removal from the tariff lists altogether. First is that many businesses could be forced to close up shop altogether. And that's not meant to be hyperbole. These tariffs are simply unsustainable and unaffordable for them since in many cases China is the single largest global supplier of safe, reliable and cost-effective raw materials for their products.

Second is that these tariffs for our industry could have the exact opposite effect of their intent. They could actually result in reducing finished product manufacturing jobs here in the U.S. and send those jobs overseas, as it would be cheaper to do that than to pay the tariffs being proposed.

And finally, our economic competitors in Europe, Asia, South America would be the big winners. They would be able to maintain supply to meet the growing demand for these products.

We're also seeking guidance from the Government on how the exclusion process will work, what the standards will be, how they'll be ensured to be uniform across the board for things from List 2 to List 3 in terms of granting exclusions and how the Government will collect the required data from companies while keeping CCI protected, confidential commercial information.

The U.S. domestic natural products industry is not a legacy industry and operates far differently than steel and aluminum. The U.S. actually has a trade surplus when it comes to finished dietary supplements and natural products. That's right, a surplus. We don't want to turn a current surplus of finished natural products into a trade deficit.

The issue at hand is whether these raw materials are available in safe supply from other sources, and I'm here to tell you they're simply not. China has and will continue to be the virtual sole source for many ingredients on the globe that can handle large-scale demand of finished product manufacturers in the U.S. This is the result of years of collaboration between our two countries including development of quality assurance, safety, good manufacturing practices and regulatory compliance. As a result, the largest foreign FDA office in terms of inspecting foods is in China. In short, we have largely built today's positive and proven supply chain and we want to continue being the primary beneficiary of that hard work.

A good example of these are amino acids which are used in both dietary supplements, infant formula, a number of fortified foods, fundamental ingredients for our products. A member of our members are now contemplating moving their U.S. manufacturing to China to circumvent the tariffs. This isn't the intended result of the endeavor.

This American innovation, like so many other areas, is why we are the world leader.

This is what drives future product sales for this industry and it is why industry analysts currently project a 10 percent compound annual growth rate over the next 10 years. That impressive future and the jobs and economic growth it would provide would go straight from the U.S. to our economic competitors if we're not provided the justified relief we are seeking. It's that simple.

So again, I thank you for the opportunity to testify and I'd be happy to answer any questions. We applaud the administration's effort to help American jobs and businesses and we want work with you in this area to maintain our Government leadership. Thank you.

MR. BISHOP: Thank you, Dr. Fabricant.

Our next witness is Richard Harper with the Outdoor Industry Association.

Mr. Harper, you have five minutes.

MR. HARPER: Good afternoon. My name is Rich Harper. I'm the manager of International Trade at Outdoor Industry Association. I'm honored to be here today to testify on behalf of OIA and our members on the impact of the proposed 10 to 25 percent tariffs on outdoor companies and their specific products presently on the $200 billion dollar annex related to this Section 301 investigation on China's intellectual property practices.

OIA is the trade association for more than 1,300 companies across the United States including suppliers, manufacturers and retailers of outdoor products. The outdoor industry generates more than $887 billion in consumer spending and accounts for 7.6 million American jobs in the United States. Our members produce some of the most innovative products that reach all corners of the globe, enriching people's lives by supporting healthy and active lifestyles.

Outdoor companies produce some of the most innovative highly-technical products designed to enhance the outdoor experience. Despite the fact that there no commercially significant domestic production of many of the outdoor products listed in the Federal Register notice, they already face significant import tariffs, as high as 17.6 percent for backpacks and 20 percent for sports bags.

Additional outdoor products impacted by the proposed tariffs include camp chairs, kayaks, leather ski gloves, bikes, climbing helmets and other headwear. And additional 10 percent tariff would raise costs for outdoor companies and force them to make some tough decisions.

Many of the contracts outdoor companies have signed with their vendors cannot be changed. They will be forced either to absorb the costs of the higher tariff or pass it along to the consumer. Regardless, the effect will be to hamper the innovation the industry is known for and outdoor consumers demand. It will mean less money for the design, development and testing of new technologies and products. Raising the tariff to 25 percent could very well put some small and medium-sized businesses out of business.

Ultimately this means outdoor companies will be unable to create new U.S. jobs and in some cases may be forced to eliminate existing jobs. It will force some companies to discontinue popular profitable products and cease the development of new products that could significantly grow the company and the overall outdoor recreation economy and it will put many of these products out of the reach of U.S. consumers who are looking to pursue healthy and active lifestyles in the great outdoors.

While outdoor companies are actively looking to diversify their sourcing options out of China in several cases such as travel goods, China continues to dominate the market with the infrastructure and skilled workforce outdoor products require. Other countries that are viable sourcing options may already be at capacity and unable to accommodate a massive immediate shift of supply chains out of China.

It will take additional time, significant investment and training to shift supply chains to other countries. Our companies are prepared to do just that, but additional tariffs at this time could negatively impact their ability to remain competitive and make the necessary investments to do so.

In the meantime additional tariffs on these products sourced out of China could force some outdoor companies to choose between higher costs and lower quality for their products. In the competitive market of the outdoor recreation economy that is a choice outdoor companies do not want to make. Or they could discontinue the products altogether, depriving outdoor consumers of some of the best, most innovative products on the market.

The proposed tariffs could also negatively impact our Made in U.S.A. members. The latest list includes some inputs such as wool yarn used in the manufacture of final products in the U.S. such as wool socks. If implemented, the proposed tariffs would raise costs for these companies and cost jobs in domestic manufacturing. These inputs are not available domestically in the quality and amounts required. As costs rise on these inputs domestic manufacturers will be at a competitive disadvantage to the finished products imported from China that will not face an additional tariff.

None of the outdoor products covered by the Harmonized Tariff system subheadings in the most recent Federal Register notice are related or contain technologies at issue in China's Made in China 2025 Industrial Policy Program. While outdoor companies share the administration's concern about China's intellectual property practices and force technology transfers, additional tariffs on these products will not create leverage in the administration's ongoing efforts to resolve these issues. These tariffs will instead hurt U.S. outdoor brands, many of which are small and medium-sized businesses and raise prices for U.S. consumers.

We urge the administration to continue to engage in the dialogue with our Chinese counterparts on these matters and develop a comprehensive solution. OIA Is grateful for the opportunity to appear at this hearing. Thank you for your attention to this important matter and I welcome your questions.

MR. BISHOP: Thank you, Mr. Harper.

Our next witness is Ethan Sigler of EW Polymer Group, LLC.

Mr. Sigler, you have five minutes.

MR. SIGLER: Good afternoon. My name is Ethan Sigler and I'm here today on behalf of EW Polymer Group, LLC, which is a new import/export female and minority-owned business based in Miami, Florida. EW Polymer Group was formed to provide synthetic rubber, natural rubber and rubber chemicals to the U.S. rubber market. These raw materials are in short supply in the U.S. where demand far exceeds capacity.

We provide the market with global options for supply including products produced in China.

Over the past 20 years U.S. synthetic rubber and rubber chemical manufacturing has contracted due to a variety of factors, including declining demand and increasing costs. The rubber industry has therefore been dependent on imported raw materials to produce a wide variety of products. The good news is that the industry has experienced a resurgence in the past two to three years with several new large tire manufacturing facilities constructed or under construction.

The tire, mining and mechanical rubber goods markets are more and more dependent on imported raw materials to supply this increased demand. Many of these raw materials have no or insufficient production capacity in the U.S. For example, 100 percent of natural rubber is imported, 80 percent of rubber chemicals are imported, and 40 percent of synthetic rubber demand is imported.

Some key synthetic rubber types such as styrene butadiene rubber, butadiene rubber and butyl rubber have only one merchant producer in the U.S. The upward pricing pressure on the industry from this situation can only be mitigated through imports. China does not currently import significant quantities of these products into the U.S.

Implementing tariffs of up to 25 percent on synthetic rubber, natural rubber and rubber chemicals would have a strong negative impact on U.S. industries using rubber as a primary raw material. These industries produce revenues of close to 40 billion annually and employ over 150,000 U.S. workers. Increased prices of tires, mining equipment, car parts and industrial rubber goods would impact all U.S. consumers negatively.

As the U.S. rubber product manufacturing industry expands there have been zero announced plans to build new basic raw material factories in the U.S. Competitively priced imports will continue to be necessary for the foreseeable future. Sourcing these raw materials from China is one option EW Polymer Group offers to the industry to support the continued expansion of U.S. industry.

We request an exclusion from the proposed tariffs on Chinese synthetic rubber, natural rubber and rubber chemicals. Thank you for the opportunity to speak today.

MR. BISHOP: Thank you, Mr. Sigler.

Our next witness is Terry Witzel of Onward Manufacturing Company.

Mr. Witzel, you have five minutes.

MR. WITZEL: Good afternoon, Madam Chairman and members of the Section 301 Committee. My name is Terry Witzel and I am the president of Onward Manufacturing Company. Onward manufactures high-quality gas grills at facilities in Huntington, Indiana, and Dickson, Tennessee. Our gas grills are sold under the Broil King brand, have received top ratings in online reviews and by Consumer Reports.

We currently employ approximately 500 individuals in Indiana and Tennessee and have recently supported more than 700 well-paying manufacturing jobs at these facilities. We also operate a manufacturing facility in Waterloo, Ontario.

Although other companies manufacture gas grills in the United States, our company's extensive vertical integration sets up apart. Other well-known U.S. companies import a significant percentage of their product lines from China or import major components that are assembled into finished grills here. Our company's operations are different. Our employees convert steel coils and aluminum ingots into finished gas grills, operations that involve injection molding, die casting, metal stamping, fabrication, porcelain enameling, painting, final assembly, packaging, supply chain, distribution, engineering, all performed by employees here in the United States.

Since 2008, our company has made

significant investments in U.S. manufacturing resulting in two of the best gas grill plants in the world located in Indiana and Tennessee. Until recently, our strategy of building gas grills in the U.S. has been successful with our company steadily increasing its production and sales between 2008 and 2017.

During this same time, like so many other manufactured products, low-priced gas grills imported from China have decimated the U.S. industry. Several of our competitors have moved all or a substantial portion of their operations and the associated jobs to China. Others have been unable to continue their operations and have simply closed or declared bankruptcy.

Our company fully supports the administration's commitment and actions to confront the Chinese government's unfair trade practices that have decimated many U.S. industries, their companies and their employees. Nevertheless, the increased duties imposed on steel and aluminum from China, either through the operation of unfair trade orders issued in 2016 or the Section 232 duties imposed by the president earlier this year, have caused increased costs for U.S. manufacturers and have created an incentive for U.S. and Chinese companies to import finished gas grills from China to the United States. Indeed, our company estimates that 8 million gas grills that China is likely to export to the United States this year will contain approximately 400,000 tons, or more than 20,000 ocean-going containers, of Chinese steel.

Unless strong action is taken properly by the president to stop the surge in Chinese gas grills coming to the United States duty-free, our company will almost certainly be forced to reduce significantly and potentially close our U.S. operations. The 10 percent duty that has been proposed on imports of gas grills from China would provide only minimal help against the onslaught confronting our company and our industry.

Rather, a Section 301 duty of 25 percent is needed to offset the many advantages enjoyed by our Chinese competitors. These include access to subsidized and low-cost raw materials and financing, access to low-cost labor and social benefits, the absence of meaningful workplace safety and environmental regulation and a currency that is manipulated by the Chinese government.

Second, in addition to imposing a duty of 25 percent on Chinese gas grills under Section 301 we strongly urge the administration to work aggressively to resolve the trade frictions with the United States' long-standing allies in Canada and the European Union. As a result of the ongoing trade frictions our company's exports to those markets are severely compromised and the retaliatory duties imposed by Canada and the E.U. are hurting our operations. Indeed, fully 60 percent of the gas grills we produce in the United States are exported to Canada and the E.U.

Third, we request that certain minor component parts that our company consumes in manufacturing gas grills here in the United States be removed from Annex C or List 3. We will submit a complete list of the relevant tariff classifications with our written comments on September the 5th.

Onward is strongly committed to sourcing from U.S. suppliers. More than 90 percent of our steel is sourced in the United States. Further, we have always required our suppliers to certify that the steel we purchase is not manufactured in China. Nevertheless, a limited number of small parts required for our operations are simply not available in the United States at a competitive price.

For these reasons we urge that action be taken to: (1) impose a 25 percent Section 301 tariff on imports of gas grills from China; (2) resolve the ongoing retaliatory duties imposed by China -- or sorry, Canada and the E.U.; and (3) remove certain minor components from Annex C.

Absent such actions the continuation of our company's operations in the United States will be seriously at risk.

Thank you and I would be pleased to answer any questions you might have regarding my testimony.

MR. BISHOP: Thank you, Mr. Witzel.

Our next witness is Jerry Johnson with Blount International.

Mr. Johnson, you have three minutes. I'm sorry, five minutes.

MR. JOHNSON: Thank you. Thank you for the opportunity to appear before you today and to state our case.

My name is Jerry Johnson and I'm the president of our Farm, Ranch and Agricultural Division of Blount International. I'm here today because our company is being hit on multiple fronts by the tariffs affecting the future of our log splitter business and the employees who manufacture them.

Specifically, more than 230 Blount

employees proudly manufacture finished log splitters in our Kansas City, Missouri, facility. We produce a key component of those log splitters, specifically the beam made of U.S. steel in our Oregon, Illinois, facility which employs 250 employees. We have additional facilities in the U.S. for a total of more than 1,600 employees.

We use both U.S.-made and imported components to manufacture the finished log splitters classified in HTS 8456.96.00. These finished log splitters were originally on the list of items valued at $16 billion issued by the USTR, but after the review process were removed. We submitted comments and post-hearing comments refuting the disingenuous claims by certain U.S. importers that these type of machines were not made in the U.S. Disappointingly, the USTR decided to remove the finished log splitters from the final list. Thus, right now Chinese-manufactured finished log splitters are given a significant preferential advantage over U.S.-made log splitters. Why are the Chinese log splitters getting such an advantage?

As I stated previously, we're using both U.S.-made and imported components. Four of the components we use to manufacture log splitters here in the U.S. are imported from China, and these items are listed on List 1 valued at $34 billion subject to 25 percent tariffs. That means the Chinese finished log splitter is getting a duty break while we're paying additional duties for our few imported components needed to manufacture the finished machine here in U.S. Additionally, we're facing duties on our saw chain from China currently proposed on List 3.

We therefore ask that the U.S. impose the 25 percent tariff on finished log splitters under HTS 8456.96.00.

In addition, we ask that the log splitter components and the saw chain that we import from China be removed from the final 301 list to keep our U.S.-made log splitters competitive. Specifically, these items are: in List 3, HTSUS subheadings 8202.40.30, saw chain blades; 8202.40.60, another saw chain blade; in List 1, HTSUS subheadings 8466.92.50, which includes parts of articles heading 8465.96.00; 8412.21.00, which is hydraulic cylinders; 8413.60.00, which is hydraulic pumps, fluid pumps; and 8481.40.00, which is safety relief valves. We're submitting product-specific exclusion requests on these items.

Blount has been a provider of finished log splitters for decades. In fact, Blount worked with some of the U.S. retailers to develop specific models of log splitters to their specifications. As a result and to meet the retailers' growing volume demands, Blount undertook millions of dollars in capital investment including, but not limited to robotic welding, laser cutting, expanded assembly areas and installation of SAP, which is an enterprise resource planning software. Following these investments one of our customers shifted sourcing to China, a move that dealt an economic blow to our company and forced job losses.

In closing, we want to keep manufacturing log splitters in the U.S. and employing U.S. workers, but in order to do so we need you to add HTS 8456.96.00, finished log splitters, to the $200 billion list and remove HTS 8202.40.30 and 8202.40.60, saw chain blades, and remove HTS 8466.92.50, 8412.21.00 and 8413.60.00.

Thank you again for this opportunity to appear before you today and I welcome any questions.

MR. BISHOP: Thank you, Mr. Johnson.

Our next witness is David Stevens with the Tire Retread and Repair Information Bureau.

Mr. Stevens, you have five minutes.

MR. STEVENS: As managing director of the Tire Retread and Repair Information Bureau, I'm here today to represent the thousands of U.S.-based employees of small to medium-sized businesses that are either directly or indirectly involved in the tire repair and retreading industries. I'm commenting today specifically on the tariff subheadings related to new and retreaded tires for trucks and buses.

In the U.S., the commercial truck and retreat industry grew rapidly during World War II to support the war effort and is now a $3 billion industry which directly supports more than 51,000 jobs in the U.S. Retreading has continued to play an important role in the trucking industry by delivering safe, reliable and high-performing tires that help trucking fleets keep their operating costs low. At the same time, retreading also delivers massive environmental benefits by saving scare natural resources, reducing carbon emissions and preventing tires from being dumped in landfill and becoming breeding ground for disease-carrying insects.

However, this industry and its U.S. employees are under severe threat from low-cost, low-quality truck tires being imported from China. Every other type of tire being imported from China into the U.S. faces some type of duty, whether passenger, agricultural, or large off-the-road tires. In fact, the International Trade Commission looked at the issue of commercial truck tires coming from China and recommended antidumping duties as high as 22.7 percent and countervailing duties as high as 65.46 percent. At the final vote one commissioner recused himself from voting allowing the recommended duties to not be implemented. This decision is currently being appealed to the Court of International Trade.

Multiple other countries around the world have already implemented tariffs on Chinese truck and bus tires being imported to their countries and the European Commission has recently recommended countervailing duties as high as 82 euros per commercial truck and bus tire.

Historically, retreading has always represented 50 percent of the commercial truck tire replacement market in the U.S. Since 2013, the compound annual growth rate of the commercial truck tire replacement market has been 5.4 percent while the retread industry has declined by 2.1 percent. This means that in 2017, retreading only represents 42 percent of the truck tire replacement market and implies a loss of 2.45 million retreaded truck tire units. This decline in the retread industry is completely driven by low-cost, low-quality Chinese truck tire imports.

Retread manufacturers and supporting industries have had to lay off employees, reduce hours and close their businesses in the face of this unfair competition.

I say unfair competition, and my assertion is backed up by price points here in the U.S. and in China. For example, let's look at the pricing for the most popular truck tire size in the U.S., 11R22.5. The average sales price of that tire produced by U.S. manufacturers across multiple quality tiers is $231. The cost of production for that tire, material and variable labor costs only is $135. U.S. retailers can buy that same size tire from Chinese tire manufacturers for $125 and then sell them on for $170. That same tire sold by Chinese manufacturers in their own country is sold for between 180 and $220 per tire.

This impacts the retread industry because the cost savings for a retreaded tire compared to a new tire have historically been around 40 to 50 percent less than the cost of a quality new tire. With a price point of these low-cost, low-quality Chinese tires getting closer to the price of retreaded tires, many customers are looking only at price instead of total cost of ownership and choosing to buy these Chinese tires.

However, these low-cost, low-quality tires will not last as long, nor will many of their casings be retreadable. So the tires will need to be replaced sooner and there's no residual value in the tire casing as many are not high enough quality to be retreaded.

Large trucking fleets are continually testing their new tire products and have consistently found that a combination of quality new tires and retreaded tires provide the lowest cost per mile for their business. This is why 100 percent of the 100 largest trucking fleets in the U.S. use retreaded tires in their operations and time-sensitive operations, such as UPS, FedEx, the U.S. Postal Service, continue to utilize retreaded tires.

I don't have the time at this hearing to fully explain or rebut some of the misconceptions about tire retreading, but let me assure you that multiple state and federal studies have looked into the safety, reliability, and performance of retreaded tires and each of these has recommended that retreaded tires are used in more instances throughout government and private fleets.

I am implore you to protect the thousands of hardworking men and women in these small to medium-sized businesses spread through the U.S. from unfair competition and pricing by low-cost, low-quality Chinese tire manufacturers and putting in place tariffs that meet the recommendations of the ITC study of between 23 and 65 percent. Thank you for your time and consideration.

MR. BISHOP: Thank you, Mr. Stevens.

Our final witness on this panel is Joseph Cohen with Snow Joe, LLC.

Mr. Cohen, you have five minutes.

MR. COHEN: Thank you. Good evening. I'm Joseph Cohen, the founder and CEO of Snow Joe. I am here today to testify about the significant harm that would be caused to American consumers and businesses if a 25 percent or even 10 percent tariff is imposed on various consumer products offered by company's Sun Joe Division.

I have twice testified before this Committee in connection with the first two rounds of proposed tariffs. I have appreciated the Committee's careful consideration of the impact of these tariffs on ordinary consumers and I am grateful for the removal of several tariff lines of concern to my company from the first and second final tariff lists.

Nevertheless, both of those lists still include several items that will cause undue harm to Snow Joe and our customers. That is why I am even more concerned about the USTR's most recently proposed tariff list.

This latest list covers no less than 10 tariff lines of critical importance to my company including electric and cordless pressure washers, leaf blowers, air compressors, vacuums, specialty garden hoses and shovels, and various parts and accessories for these items.

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

We invest heavily in American R&D and provide work for approximately 300 people primarily in the greater New Jersey and New York areas. Just last month we opened a new 277,000 square foot state of the art distribution and R&D facility in Mahwah, New Jersey, that will support at least 100 more jobs. We are also expanding into Washington State with a planned 200,000 square foot facility in 2020.

With the threat of so many tariffs looming over my business cost pressures are making it increasingly difficult to remain competitive and continue to create high-quality, well-paying American jobs. While I recognize and appreciate the goals the administration has set in imposing these tariffs, tariffs on consumer items like gas-free pressure washers, leaf blowers, air compressors and vacuums would harm American consumers and businesses without advancing the administration's goals.

The reason is simple: Many of Snow

Joe's products are designed and developed in the United States, but they are manufactured in China out of necessity. Since launching my company, I have always looked first for U.S. suppliers for our products. When we can we source from the United States. But just as was the case for other products on which I testified in the two prior rounds, we are not aware of an U.S. production of these types of electric and cordless outdoor tools that we design and sell, including the pressure washers, leaf blowers, air compressors and vacuums that are on the newly-proposed tariff list.

As I have testified in the past, it is simply not realistic to manufacture these products in the near term in the United States. For example, the seasonal nature of many of our products provides little incentive for the massive investment that would be needed to create new production facilities, nor can existing production facilities easily be converted to such production. Each of our non-gas-powered outdoor tools requires special and costly equipment, such as the pumps used in our pressure washers.

The specific equipment needed for each product means that we need to source each product from individual factories dedicated to production of that one particular product. This equipment cannot be used for other items, meaning one factory cannot be used to produce different products depending on the season. For a small but growing company like mine, investment in building a new factory in the U.S. from scratch for each product is simply not commercially feasible.

For similar reasons, it is also not economically feasible for Snow Joe to shift production of our specialty garden hoses and shovels outside of China. For example, Snow Joe's garden hoses are uniquely lightweight, kink-resistant and manufactured using specialty woven materials. The manufacturing process for these hoses is highly labor-intensive due to the hand application of the specialty material.

These hoses currently retail for as little as $20 at Walmart, making them affordable for the average consumer. Moving manufacturing to the United States would have substantial production costs which would in turn require that Snow Joe raise prices for these products significantly which would simply price these products out of the U.S. market.

We are therefore unable to offset the impact of these tariffs on our company and consumers by moving production of specialty outdoor tools to the United States. With no known U.S. or significant third-country supply source outside of China for the items impacted by the proposed tariffs and in light of the significant hurdles to building such capacity in the United States in the near term, we have no choice but to rely on existing sources in China. If tariffs are imposed, we will be unable to offset these impacts by shifting suppliers. As a result the tariffs will essentially act as a tax on U.S. consumers who rely on our affordable, easy to use products for their home maintenance needs.

At the same time, these tools are not Made in China 2025 priorities. For example, the pressure washers offered by my company are used by consumers. In fact, these products weigh between 12 and 40 pounds and retail for between $100 and $300. As an example I have included an attachment of one of our pressure washers that has been Amazon's best seller for the last three years with more than 5,000 product reviews.

These products are not intended for and cannot be used in industrial applications, nor is Snow Joe aware of any instances of Chinese intellectual property theft with respect to these products. As such, the goals of this investigation would not be advanced by imposing tariffs on these consumer products.

For these reasons Snow Joe respectfully requests that the USTR exclude electric and cordless pressure washers, leaf blowers, air compressors, vacuums, specialty garden hoses and shovels, and various parts and accessories from these items from its proposed tariff list. Thank you for this opportunity to present these views today. I am happy to answer any questions.

MR. BISHOP: Thank you, Mr. Cohen.

Madam Chairman, that concludes direct testimony from this panel.

CHAIR GRIMBALL: Thank you for your patience. We're ready to begin.

MS. ZUCKERMAN: Dr. Fabricant, in your submission you argue that many of the products you listed are dependent on sourcing from China. In your experience, which types of goods are less dependent on China for your industry's sourcing needs, intermediate goods or finished goods?

DR. FABRICANT: Intermediate. The raw materials. Vitamins, minerals, amino acids largely are -- you wouldn't be able to get supply anywhere other than China.

MS. ZUCKERMAN: Thank you.

MS. D'ANDREA-YOTHERS: This question

is for Mr. Harper.

In your testimony you argue it takes significant investment and training to shift supply chains to other countries. Can you walk us through the factors your members take into account when looking to shift sourcing?

MR. HARPER: I think there are a number of factors that our members look into. The first is the quality of the product. These are innovative, highly-technical products developed specifically to enhance the outdoor experience, and so first and foremost, they want to be sure that the factories that they're sourcing from are able to develop the products of the quality and the technological standards that they expect and that our members expect.

And certainly cost is also a factor in developing these sourcing options. So our members are consistently looking for opportunities to find new sourcing options, but as in the case with travel goods in particular, China continues to dominate the market. And while they might look for other options outside of China, it does take time and investment to be able to shift those supply chains specifically for the kind of highly technical, innovative products that our members expect.

MS. BONNER: Mr. Sigler, my question is in your submission you note that China has not and does not currently export any significant volume of SBR, BR, or natural rubber to the United States.

MR. SIGLER: That's correct.

MS. BONNER: And then you note that implementing tariffs on these products would have a strong negative impact on U.S. industries. Can you help reconcile those two statements for the Committee?

MR. SIGLER: Yes, we were referring to a number of different products in our testimony. For synthetic rubber, which we referenced the SBR, BR, and butyl rubber, there's substantial new demand coming in the U.S. There are other countries which can supply this, but there are massive amounts of spare capacity in China that can be utilized to the benefit of U.S. producers, whereas some of the other products we mentioned such as rubber processing chemicals, over 80 percent of the supply into the U.S. rubber market comes from China. And that's where we would see the immediate negative benefit, whereas on the synthetic rubber types it was more of an issue of missing out on the opportunity of utilizing this spare capacity for the benefit of the industry that does not exist in the U.S.

MR. SECOR: My question is for Mr. Witzel. If tariffs were to be imposed on gas grills from China, do you think foreign production would remain in China or shift to a third country? And if it did shift, how quickly would that happen?

MR. WITZEL: I think that's a great question, and I -- it's definitely a concern of ours. My guess is some of our competitors are working on that already and we certainly have to look at other jurisdictions, as well, in case tariffs aren't put in place. I would guess that there's a strong possibility that production could move, however, the gas grill industry is very, very entrenched in China. Every component that you could want is available in China and there's a -- it's a big industry there, and the boats are floating over here on a regular basis full of Chinese steel.

MS. KNISLEY: Mr. Johnson, in your testimony you argue that imposing tariffs on Chinese log splitters would help offset the higher costs your company faces in light of the Section 232 tariffs on steel. What would be the ultimate impact on your consumers?

MR. JOHNSON: Well, I think we're already seeing the impact prior to the tariffs on the components. We lost 43 jobs due to the Chinese manufacturers, I think, targeting the log splitter market and retailers that we have lost. So tomorrow if the incoming log splitters, fully-assembled log splitters aren't tariffed, we're going to continue to be at the same disadvantage we are right now. I know two manufacturers that have exited the log splitter business in the last year.

MS. PETTIS: Mr. Stevens, your submission indicated that the imposition of additional duties on truck and bus tires would be effective in eliminating China's acts, policies and practices. Should the additional tariffs be implemented, do your members anticipate the trade to shift to another country or would imports continue to come in from China?

MR. STEVENS: That is already happening in response to tariffs in other markets around the world, so Chinese tire manufacturers have started building and opening plants in Thailand, for instance, and we've seen the flow of products from Thailand, specifically, commercial truck and bus tires, increase with the threat of tariffs in the U.S. with the previous ITC investigation that took place, and we're seeing that shift happen in Europe right now with the subsidies -- the tariffs that they've put in place. It can be a relatively quick process. There is fear that that will continue to happen if tariffs are put on these Chinese manufacturers.

MS. PETTIS: Okay. Thank you.

MR. SULEWSKI: Hi, this question is for Mr. Cohen.

Mr. Cohen, do you have an estimate on how much of the proposed tariffs would ultimately be passed on to consumers? Would consumers bear the full increase of the costs?

MR. COHEN: At this point, I mean, we're doing the analysis now, but we're looking between 15 to 25 percent assuming the 25 percent cost of goods increase would be in effect because of the tariff. The challenge right now is uncertainty more than anything else. We're in the process. You know, this time of year we're planning out 2019, spring and fall, with our retail partners and generally everybody is sort of in limbo here waiting to see how things go. We're hopeful and optimistic that there's a resolution in place soon, but assuming not, I think the delay more than anything else is going to be an added insult to the process because then we'll have to start rushing and that's when just sort of everything gets more costly at that point to execute at the retail level.

I mean, you walk into a Home Depot or a Walmart, it's all nice and merchandized, but it takes a lot of effort to get that product on the shelf timely. And we work almost a year in advance. So now we're talking to our retail partners. They're like, well, Joe, let us know what happens from the testimony today and we'll keep talking and we'll let you know. It's a very uncomfortable position to be in. I mean, we have real expenses that are ticking every single day and hundreds and hundreds of people on the payroll that depend on direction.

So I mean, we're hopeful that most -- to answer your question, we're going to mitigate some of the cost and absorb, but ultimately some of the costs will have to go up. And these tools are meant to be for the consumers that are looking to save money. A consumer-grade pressure washer is meant to spruce up your home before you sell it or to clean your car and not have to take it to the carwash or hire somebody to do it. You could do it yourself. And the whole concept of do-it-yourself is to save some money. Now, to raise that do-it-yourselfer 25 percent, it's going to hurt. The people that could afford it are, you know, the do-it-for-me customer, twenty-five is irrelevant, but they're not cleaning their own car. They're paying for someone to do that. So that's the challenge we're up against right now.

CHAIR GRIMBALL: Well, if there are no more questions, that concludes the first day of these hearings. Thank you very much for your testimony.

We ended about five minutes early. That's very impressive.

And with that, I will declare a recess today and we will continue tomorrow at 9:30.

Thank you.

(Whereupon, the above-entitled matter went off the record at 5:53 p.m.)

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C E R T I F I C A T E

This is to certify that the foregoing transcript

In the matter of: Section 301 Tariffs Public Hearing

Before: USTR

Date: 08-20-18

Place: Washington, DC

was duly recorded and accurately transcribed under my direction; further, that said transcript is a true and accurate record of the proceedings.

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Court Reporter