UNITED STATES TRADE REPRESENTATIVE

+ + + + +

301 COMMITTEE

+ + + + +

SECTION 301 TARIFFS PUBLIC HEARING

+ + + + +

TUESDAY
AUGUST 21, 2018

+ + + + +

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
EVAN CONCEICAO, Department of Homeland Security
BENJAMIN NILS HARDMAN, Department of Commerce
AMY HOLMAN, Department of State
JULIA HOWE, U.S. Trade Representative
TYMOTHY MCGUIRE, U.S. Department of Agriculture
ERIC MULLIS, U.S. Department of Agriculture
MAUREEN PETTIS, Department of Labor
PETER SECOR, Department of State
TANYA SMITH, Small Business Administration

STAFF PRESENT

BILL BISHOP, U.S. Trade Representative

TYRELL BURCH, U.S. Trade Representative

WITNESSES PRESENT

JIM ANDERSON, Moly-Cop USA
COLIN ANGLE, iRobot
JAMES ARCHIBALD, William T. Burnett & Co.
ERIC ASTRACHAN, Tile Council of North America
LEIGH AVSEC, MasterBrand Cabinets, Inc.
DAVID BAER, Element Electronics
MARISA BEDROSIAN, Bedrosians Tile & Stone
LEE BERGER, Broan-NuTone, LLC
PETER BERKMAN, Homewerks Worldwide, LLC
BRETT BRADSHAW, International Housewares Association
BRIAN CARSON, Mohawk Industries, Inc.
SAGE CHANDLER, Consumer Technology Association
KATHLEEN CLAS, Kodak Alaris, Inc.
STEPHEN COMSTOCK, American Petroleum Institute
JONATHAN COWLES, Liberty Furniture
WIN CRAMER, JLab Audio
MIKE DiSTEFANO, Continental Materials, Inc.
SHEILA EADS, ERB Safety
AARON EMIGH, Brilliant Home Technologies Corp
BILL FAGERT, The Wooster Brush Company
RICHARD FIREHAMMER, Universal Electronics, Inc.
CHERYL GREEN, Bak USA Technologies Corp
PAUL GOSNELL, Patriot Timber Products
JOHN HOWARD, Coil Wholesalers, LLC
WAYNE JOSEPH, New Flyer of America
MARK KARNES, Cedar Electronics
JOHN KARSON, FX Minerals, Inc.
JEROME KEARNS, Four Hands, LLC
MARK KINZIE, Logitech, Inc.
JOHN MATTKE, National Building Granite Quarries Association
JOHN McCANN, MEC Aerial Work Platforms
TIM MILLER, Lionshead Specialty Tire & Wheel
ANDY MISSAN, Fitbit, Inc.
JOHN NEWCASTER, IMPACT Industrial Minerals, LLC
CHRIS O'CONNOR, Congoleum Corporation
JASON OXMAN, Electronic Transactions Association
MIKE PEDERSEN, Alta Forest Products

GARY PHILBIN, Dollar Tree, Inc.

MARK PROFFITT, MECO Corporation
JASON ROOK, Tube & Solid Tire, Ltd.
TIMOTHY AMOS SCHALLICH, eero, inc.
DAVID SCHEER, ECM Industries, LLC
RUPESH SHAH, M S International
DERRICK SHAOULPOUR, HF Design, LLC
WU SHENGFU, China National Forest Products Industry Association
MO SIEGEL, Ice Air, LLC
MARTIN SILVER, Max Home, LLC
ERIK SMITHWEISS, Pioneer DJ Americas, Inc.
JEFF SWARTZ, Moen, Inc.
GARY TRAPP, Cascade Wood Products, Inc.
CRAIG UPDYKE, National Electrical Manufacturers Association
TOM VINING, National Elevator Industry, Inc.
NATHAN WALKER, Goodman Global
CHRISTOPHER WELCH, Magic Tilt Trailers
JARED WESSEL, United Industries
NAOMI WILSON, Information Technology Industry Council
WEITAO ZHANG, Transamerica Tire Co., Ltd.
XIAO ZHIYUAN, Jiangsu Beier Decoration Materials Co., Ltd.

CONTENTS

Panel 15

Panel 16

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

(9:29 a.m.)

CHAIR TSAO: Hi. 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 18th, 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 6th, 2018.

On July 16th, 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 $16 billion, effective August 23rd, 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 17th, 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 the list of tariff subheadings covering products from China with an annual trade value of approximately $200 billion.

The proposed rate of duty for the supplemental action initially was 10 percent. On August 7th, 2018, 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 described in the July 17th and August 7th notices. Written submissions including post-hearing comments should be submitted by no later than September 6th, 2018.

The Section 301 Committee will carefully consider the testimony and the written comments. The Section 301 Committee will then make a recommendation to the Trade Representative on supplemental action to be taken in this investigation.

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

First, the hearing is scheduled for six days, concluding Monday, August 27th. This is the second day of the hearing. We have 46 panels of witnesses with approximately 250 individuals scheduled to testify. The provisional schedule has been posted on USTR's website.

We have eight panels of witnesses scheduled to testify today. We will have a brief break between the 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. 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, 2018. The rules and procedures for written submissions are set out in the July 17th 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 submission.

No cameras or video or audio recordings will be allowed during the hearing. A written transcript of this hearing will be posted on the USTR's 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 and at this time I would like to ask them to introduce themselves.

MS. HOLMAN: Good morning. I am Amy Holman from the United States Department of State.

MR. CONCEICAO: Good morning. My name is Evan Conceicao with U.S. Customs and Border Protection.

MR. JOHNSON: Good morning. I'm Martin Johnson from the U.S. Department of Commerce.

MS. HOWE: Good morning. I'm Julia Howe with the U.S. Trade Representative's office.

MR. MULLIS: Good morning. I'm Eric Mullis with the United States Department of Agriculture.

MS. PETTIS: Good morning. I'm Maureen Pettis. I am from the Department of Labor.

MS. SMITH: Good morning. My name is Tanya Smith. I'm with the Small Business Administration.

CHAIR TSAO: And my name is Arthur Tsao. I'm with the U.S. Trade Representative's office.

MR. BISHOP: Mr. Chairman, our first witness on this panel is Jim Anderson with Moly-

Cop USA.

Mr. Anderson, you have five minutes.

MR. ANDERSON: Thank you. Good morning. My name is Jim Anderson. I'm the CEO of Moly-Cop USA and I very much appreciate the opportunity to talk to you today.

We support the administration's action's to stop China's unfair trade practices and we are happy to see that steel grinding balls are included in the list of Chinese products potentially subject to additional duties. We urge the administration to keep steel grinding balls on the list to impose a 25 percent additional duty.

Moly-Cop USA is the largest producer of steel grinding media balls. We produce this product at our facility in Kansas City, Missouri. The plant provides critical manufacturing jobs for this area of the country. The facility accounts for about 50 percent of grinding media production capacity in the United States and we also recently provided a $13 million upgrade to the facility. We are proud to have one of the world's most technically advanced and productive grinding media facilities in the world.

Steel grinding balls are made from high-carbon alloy steel bars for maximum resistance and hardness. We proudly source most of our bars from United States steel producers. As a result, Moly-Cop USA also supports steel production jobs.

Moly-Cop USA steel grinding balls are a critical input to the U.S. mining industry. Steel grinding balls are used for copper, gold, iron ore, and other mining industries to break up ore extracted from the ground to help liberate the minerals. Therefore, domestic mining companies depend on the availability of steel grinding balls to produce these important inputs for the U.S. economy.

Considering all of this, it is critical that imports of Chinese steel grinding balls be subject to additional duties. Chinese steel grinding ball imports have increased nearly

66 percent since 2015, capturing a growing segment of the U.S. market and are threatening to rapidly expand in the near term.

This directly impacts Moly-Cop USA sales because U.S. demand for steel grinding balls is relatively flat. Thus, the capture of the market share by Chinese imports directly leads to lost sales by Moly-Cop USA.

Moly-Cop USA is now operating at approximately 70 percent of capacity. There can be no question that these share gains are the result of the Chinese government's support for steel grinding ball producers and the steel industry more broadly. China entered the steel grinding ball market relatively recently but then rapidly increased production and quality.

While Moly-Cop USA invested decades of human and economic capital to develop the capabilities to manufacture steel grinding balls, Chinese producers achieved these technical capabilities in only a few years. This can only be explained by Chinese government support.

Moreover, we have reason to believe that Chinese steel grinding ball producers acquired information about Moly-Cop USA's production processes and technology. We do not know if the Chinese government was directly involved. The acquisition of Moly-Cop USA's know-how by Chinese steel grinding ball producers reflects the Chinese government's overall encouragement to obtain foreign technology through any means. More details on this will be provided in our comments.

Another indication of Chinese government support is China's massive production over capacity. Moly-Cop USA estimates that China has almost 50 percent of global grinding media capacity. This is more than three times the Chinese domestic demand. With their demand, they could meet up to 90 percent of all global demand -- or supply, I should say. There could be no market explanation for this situation.

Finally, the Chinese steel grinding ball industry's rapid expansion over capacity is directly linked to Chinese massive levels of support to its steel industry.

The Committee knows all too well the Chinese government directs and controls virtually all aspects of the Chinese steel industry, providing various subsidies and other forms of support. All levels of Chinese government continue to intervene and provide support to the Chinese steel industry through tax advantages, grants, preferential loans, and subsidized inputs.

These policies are coordinated through numerous economic plans and include developing downstream steel products such as steel grinding balls. These unfair trade practices and their impacts on the U.S. economy would be addressed by keeping steel grinding balls on the list of Chinese products subject to additional duty.

The specific HTS numbers will be provided also in Moly-Cop USA's comments.

This would help mitigate the unfair competitive advantage the Chinese steel industry has with grinding ball imports. We also do not believe that imposing additional duties would cause any economic harm to U.S. interests because the U.S. producers have sufficient production capacity to more than meet U.S. demand.

Finally, we support increasing the additional duty on proposed Chinese products from 10 to 25 percent. A 25 percent duty would more significantly counter government support of Chinese grinding ball producers and better remove the current incentive for Chinese exports to shift from alloy steel bar to steel balls. The higher duty would also help counterbalance the effects of the recent depreciation of the Chinese currency.

Thanks again for the opportunity to talk to you about this. I'd be happy to answer any questions.

MR. BISHOP: Thank you, Mr. Anderson. Our next witness is Kathleen Clas with Kodak Alaris, Incorporated.

Ms. Clas, you have five minutes.

MS. CLAS: Good morning. My name is Kathy Clas and I am the director of global business operations at Kodak Alaris. I appreciate the opportunity to testify once again. The basis of my arguments today will be consistent with those brought forward at the May 11th hearing where we were subsequently granted an exception to tariffs on optical scanners.

Kodak Alaris is an independent global technology company based on Rochester, New York, that was formed in 2013 as a spinoff from Eastman Kodak Company.

My testimony today will cover two product families: optical scanner parts from our Alaris division and photochemicals from our paper, photochemicals, and film, or PPF, division.

The Alaris division's optical scanners are available worldwide and we are a trusted provider for federal, state, and local governments in the U.S., the U.S. military, and other markets such as health care, banking, insurance, education, transportation, and logistics. Some of our top customers are the VA Medical Center, the IRS, the Office of Personnel Management, and the Department of Homeland Security.

Customers rely on the Alaris division to service existing optical scanners using replacement parts. The service side of the business accounts for approximately half of our annual revenue.

Regarding the PPF division, professional and consumer processing labs utilize our photochemicals to generate final paper and film images. These labs assist professional portrait, wedding, sports, and commercial photographers by processing their images and films to generate finished product.

We import optical scanner parts and photochemical products from China. These products are classified under many subheadings of the tariff schedule. We will comment on more tariff codes in our written submission, but today

I want to focus on scanner parts classified under the subheadings 8473.30.51, 8473.30.11, and photochemicals classified under the subheading 3707.90.32.

I will share with you why the proposed actions would not resolve IP concerns, and in fact cause new substantial concerns for U.S. customers and Kodak Alaris, especially our U.S. operations.

First, we develop and own all of our IP. The research and development organization for Kodak Alaris is located in Rochester, New York. This is where our numerous patents are primarily owned, managed, and protected.

Our scanner and parts manufacturing facilities are in China, one of which is wholly owned and operated by Kodak Alaris with all KA employees. The second facility is owned by a Taiwanese company with which we have done business for many years and is renowned for its diligence in maintaining confidentiality and protecting its customers' IP.

With regard to the PPF division, Kodak Alaris has a close relationship with our manufacturing partner in China and our agreement with that partner includes robust IP protection provisions. In fact, the facility that manufactures our photochemicals in China was previously owned by Kodak Alaris until 2016.

In either case, whether the manufacturing facility is operated by KA or one of our manufacturing partners, there is no evidence or risk of any theft of Kodak Alaris IP.

Second, Kodak Alaris cannot absorb a 10 to 25 percent increase in costs for its optical scanner parts or photochemical products.

In the Alaris division, we drive significant revenue from public sector customers in the U.S. and we are a preferred vendor due to our high quality scanners and parts, software, and services with an install base of over 350,000 scanners in the U.S. Imposing additional duties on optical scanner parts would significantly increase the cost of replacement parts and services provided to U.S. government customers and other small and medium-sized businesses in other segments.

In additional, small- and medium-sized professional and consumer processing lab customers that purchase our photochemical products would be impacted, which could result in increased costs for U.S. consumers, including professional and recreational photographers.

Third, additional duties on optical scanner parts and photochemical products would have a meaningful negative impact on KA and its approximate 700 employees in the U.S., resulting in the potential need to terminate U.S. employees, particularly those that service Kodak Alaris' existing install base of scanners.

Moving manufacturing operations for optical scanner parts and photochemicals outside of China would cause a significant amount of time, money, and engineering sources for relocation and recertification, impacting our ability to develop and innovate in the U.S.

For both businesses, there are virtually no options for U.S. sourcing without significant time and capital investment. Shifting manufacturing operations is not a practical option for us.

For the reasons I discussed, Kodak Alaris respectfully requests that the noted subheadings be excluded from the proposed duty increases. Thank you again for allowing me to testify today and I welcome any questions the committee may have.

MR. BISHOP: Thank you, Ms. Clas. Our next witness is Derrick Shaoulpour with HF Design, LLC.

Mr. Shaoulpour, you have five minutes.

MR. SHAOULPOUR: Good morning. I am Derrick Shaoulpour, executive vice president of HF Design, located in Hicksville, New York.

The proposed tariffs on floor coverings will have a devastating effect on companies such as ours which designs and imports such coverings from China, but also on the ultimate consumer of the products, which includes home builders, builders of commercial offices and other commercial upgrades.

The floorings that we sell are purchased many months in advance, as developers and contractors have a fixed cost structure. Any significant increases such as the ones proposed will halt these projects and eventually lead to immediate default in construction loans as well as company bankruptcies.

This downstream effect will certainly decrease new housing and home improvement projects. Thereby, fewer projects and less work for contractors will lead to higher unemployment rate.

If there is a halt in these projects, these developers will hold off on new development projects and not borrow capital for further construction. This will have a trickle effect on other industries and the higher interest rate will have a double negative impact on the construction industry.

Many of our distributors and customers have already cancelled purchase orders in fears of this potential 25 percent tariff and are currently in a holding pattern. These projects have also been stopped and already seen the negative impact.

These distributors who sell to the end users are the small businesses throughout the country which are the backbones of the U.S. economy and the U.S. floor covering industry. This is also a big fear of regressing back to the 2008 depression which put many companies out of business in our industry.

We have already seen consumer confidence slowing down and less new project planning for new construction and home improvements. Here are some statements from two of our customers: "The flooring we buy from China supports a hundred jobs at Adleta Corporation. It also supports several hundred retail salespeople who make commission dollars off these products. This is not a domestic industry to pick up the supply of these products. The style and design of these industries has come from overseas. The consumer is a loser in this also by adding a tax to all their purchases." John Sner, president, Adleta Corporation.

"Higher consumer prices on LBT/vinyl flooring. Fewer flooring choices for the American consumer. Stifled innovation in product design, performance, safety, and sustainability. Potential job losses in the sales and supply channels for flooring distributors, retailers, installers, contractors." Mike Klingele, president, Diamond W.

Our partner factories in China manufacture specifically to our detailed requirements and are skilled and trained craftsmen. Our flooring products are unique styles and techniques that cannot be duplicated or replaced by domestic manufacturers. Some of the technology and raw material are not available here in the U.S. Therefore, a simple shift of production to U.S. or other countries is not achievable in a short time period and would require at least 12 to 24 months at a minimum.

We would like to highlight that currently there is already a duties on flooring products imported from China and ongoing AD/CVD cases on engineered hardwood. The products of particular concern to us are engineered hardwood, HTS Code 4412.32.3225; laminate flooring, HTS Code 4411.13.2000; and vinyl, HTS Code 3918.10.1000.

For the reasons explained, and after discussing with many leading business owners in our industry, we are speaking for thousands of companies to request these flooring products be exempt from the proposed tariffs.

There will be no positive impact to the U.S. government nor the U.S. economy, only a negative one, which would lead to thousands of job losses, bankruptcies, and slowdown in construction of homes. Thank you for allowing me to present my views today.

MR. BISHOP: Thank you, Mr.

Shaoulpour. Our next witness is Christopher Welch with Magic Tilt Trailers.

Mr. Welch, you have five minutes.

MR. WELCH: Good morning. My name is Chris Welch. I am the supply chain manager at Magic Tilt Trailers, a 65-year-old steel and aluminum boat trailer manufacturer based in Clearwater, Florida.

I'm grateful for the opportunity to provide testimony today and honored to represent the 175 members of our company as well as similarly sized and positioned companies in our industry. With over 300 individuals providing testimony over the course of this week, I will stay brief and on point.

We are concerned about the placement in marine trailer manufacturing-related HTS subheadings on the Section 301 tariff list. Our concern is that the overall U.S. marine manufacturing sector, a major economic growth leader over the last decade, could be reduced to a dragging sector on the overall economy.

The compounding effect of standard inflationary business items, Section 232 tariffs, and Section 301 tariffs would cause extreme disproportionate economic harm to all businesses and customers in our sector.

Although Secretary Ross was able to demonstrate on television that 25 percent steel tariffs will have little impact on the overall cost of a can of soup, the reality of our situation couldn't be more opposite. I don't think the Secretary would have garnered the same visual result had he presented a two-ton steel boat trailer as his example.

Price increases along our entire supply chain on metal products have been swift and significant since the domestic steel and aluminum premium markets moved north, absorbing the ramifications of the Section 232 investigation and subsequent tariff decisions.

The consumers in our market are currently paying 6 to 8 percent higher prices than 2017, mostly due to metal price changes resulting from the Section 232 decision.

Based on a review and estimate of our material component imports, we project that a 25 percent tariff levied on HTS U.S. 4011.90.20, 4011.90.80, and 8716.90.50 under this Section 301 review would increase our overall material costs by levels that would require an additional price increase of 5 to 6 percent, setting our sector-specific CPI at 11 to 14 percent.

Therein lies our crisis and why I'm here today. If the overall market's core CPI remains at or near the current 2.4 percent July 2018 level and the tariffs are levied on our component imports, the boat trailer and overall marine manufacturing sector will be proportionately overburdened and in danger of significant contraction as consumer discretionary funds are moved to other markets.

Quickly reviewing the specific impacts of this Section 301 review: bias trailer tires, radial trailer tires, aluminum wheels, steel wheels, every small or large random trailer-related part are currently included on this target list.

Since HTS subheading 8716.90.50 is a catch-all for every general trailer part, it is certainly catching all and every part in this case: every nut, bolt, washer, screw, welded bracket, stamp bracket, welded sub-component, axle, hub, leaf spring, plastic roller, rubber roller, coupler, trailer jack, trailer wench, aluminum wheel, galvanized steel wheel, everything. All of those items are imported under that specific eight-digit HTS code.

For all of these parts, we are not talking about items that would be related to any negative aspect of forced technology transfer, intellectual property, or innovation, or the Made in China 2025 program. They have been basic, industry standard commodity parts for decades.

We strongly request that the aforementioned HTS eight-digit subheadings be removed from consideration, allowing our company and those in our sector to work hard and continue in our contributions to grow this economy. Thank you.

MR. BISHOP: Thank you, Mr. Welch. Our next witness is Naomi Wilson with the Information Technology Industry Council.

Ms. Wilson, you have five minutes.

MS. WILSON: Thank you. Good morning. It's a pleasure to be here. My name is Naomi Wilson. I'm the director for China and Greater Asia at the Information Technology Industry Council here in D.C.

ITI represents over 65 of the world's most innovative and technologically advanced companies. We consider ourselves the global voice of the tech sector.

I would like to focus my remarks today on illustrating the impact of List 3 tariffs on consumers, businesses, communities, and American technological competitiveness.

Across sectors, as I think you have heard yesterday and today, business and associations largely agree we have very serious problems with China's unfair trade practices and policies. But tariffs are not the solution to those problems.

We question the logic that short-term pain will in fact lead to longer-term benefits. In terms of the impact on consumers, just to give you a flavor for the types of consumer electronics that will be captured by List 3, starting with the connected devices, HTS Code H51762, these are connected wearable technologies such as smart watches, fitness trackers. Other devices include streaming devices for TVs, e-readers, electronic calculators, headphones and Bluetooths.

In addition, this has a negative impact on telecommunications and networking equipment, which comprised the basic infrastructure used to connect wireless devices to wireless networks.

Printed circuit assemblies, HTS Code 84733011, and printed circuits are also key components of many consumer electronics, including cell phones, flat-panel TVs, laptops, electronic calculators, and home appliances.

In terms of the impact on American jobs and manufacturers, people often ask what is the impact on multi-billion-dollar tech companies. Why are you complaining? And we are complaining on behalf of our companies' consumers, which not only includes average Americans but also small and medium-sized businesses.

So, in terms of jobs, many of the products that our companies use in their finished products are in part assembled outside of the U.S. and then shipped back to the U.S. for final assembly and export.

This, of course, requires employment in the U.S. to produce the final product and then export it, and simply rejiggering that supply chain not only takes time but it also involves the calculus of jobs. And so companies may be forced to downsize their production in the U.S. and manufacturing facilities or move overseas.

The effect on small- and medium-sized enterprises, for example, is very real. If prices go up on these finished products, small- and medium-sized businesses will potentially not be able to afford products that they rely on to run their day-to-day systems, like payroll or order management, and their ability to export products and reach global customers.

We have three million data centers in the U.S. at current and the number is growing. The creation of these data centers continue to be a source of U.S. growth across all 50 states.

In terms of the second order impacts on communities, it's important to note that these tariffs will hit basic health, emergency, educational, and community service providers. Products that schools and libraries, healthcare, and research facilities use will all become increasingly expensive and have a direct impact on the ability of these day-to-day service providers to provide necessary care.

Perhaps the most egregious long-term

impact is the impact on U.S. competitiveness and technological advantage. Many of the components on this list are building blocks of future technologies. Internet of things, AI, machine learning, 5G, these will all become more expensive and leave less money for companies to invest research into research and development, and will have the longer-term impact of preventing our companies from focusing on innovation in these important fields which the U.S. government hopes our companies will excel in, not only for economic benefit but also for our national security and competitiveness. And they can't do that if they are preoccupied with reworking their supply chains.

So, in conclusion, the impact of tariffs is real and significant. We question whether the short-term pain will in fact yield to longer-term benefits or simply longer-term pain, and we urge the U.S. government to assess the impact of the tariffs thus far and the future impact before moving forward with future implementation of these tariffs. Thank you.

MR. BISHOP: Thank you, Ms. Wilson. Our next witness is Xiao Zhiyuan with Jiangsu Beier Decoration Materials Company, Limited.

Mr. Zhiyuan, you have five minutes.

MR. ZHIYUAN: Good morning. My name is Xiao Zhiyuan and I'm the general manager of international trade for Jiangsu Beier Decoration Materials Company, Limited.

Our company produces various products, including laminate, engineered, and vinyl flooring. I am here today to respectfully request that USTR remove the HTS subheadings covering laminate, engineered, and vinyl flooring from the list of products that may be subject to an additional 25 percent tariff. The relevant subheadings were contained in our request to appear at this hearing and will be addressed in detail again in our written comments.

The Section 301 proceeding is intended to address China's alleged acts, policies, and practices related to technology transfer, intellectual property, and innovation.

The initial list of products proposed by USTR identified products that allegedly benefit from China's industrial policies, including Made in China 2025. Laminate, engineered, and vinyl flooring products do not benefit from any industrial policies and the imposition of any duties on such flooring products will not achieve the objectives of the United States.

As others have or will testify, the imposition of Section 301 tariffs on such products will only lead to disruption for our customers in the United States and will have a negative impact on the U.S. market for home construction and home remodeling.

It is particularly strange that our industry will be included in a case that is directed at intellectual property enforcement. My own company uses the click interlocking system for fitting flooring pieces together. We pay substantial patent royalties to an affiliate of

Mohawk Industries, as well as to a Swedish company. Almost all Chinese companies pay the same royalties.

The pricing of engineered flooring in the U.S. already has an effective price restraint on it due to the antidumping and countervailing duty orders in effect on those products. Laminate flooring is the least expensive form of flooring product we are concerned about. While there is capacity for laminate floor products in the U.S. and Europe, the price levels are much higher than from Chinese with its lower labor costs. If additional tariffs are imposed on Chinese product we are quite certain that consumers of the product, who tend to be lower income people, simply will switch to other floor coverings such as rugs rather than switch to other countries' product.

Vinyl flooring is the fastest growing flooring category in the U.S. market due to new products that have been developed in recent years. Such products include stone plastic composite and wood plastic composite vinyl, which have different properties than traditional vinyl and are more durable and stable. These products are made only in China. There is no capacity for this product in the United States or in other countries.

Finally, many customers in the United States have designed their construction projects by using Chinese products and knowing their performance characteristics. I think that it will take at least two years to open or expand factories abroad in order to serve the U.S. market. Meanwhile, there will be a huge amount of economic disruption in the construction industry.

Thank you for listening to my statement.

MR. BISHOP: Thank you, Mr. Zhiyuan.

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

CHAIR TSAO: Great. We will begin questioning in about one minute.

(Pause.)

MR. JOHNSON: Yes, my questions are for Mr. Anderson, Moly-Cop USA. You state that U.S. producers have sufficient capacity to meet U.S. demand. How many other competitors do you have that are domestic?

MR. ANDERSON: Two.

MR. JOHNSON: Two? All right. And can you provide any additional details or any other evidence to support this, that they have sufficient capacity?

MR. ANDERSON: We are all running at under capacity.

MR. JOHNSON: You're all running under capacity?

MR. ANDERSON: All of us.

MR. JOHNSON: Are there any third country suppliers to the U.S. besides China?

MR. ANDERSON: No.

MR. JOHNSON: No. And does -- do the --

MR. ANDERSON: Japan. Japan just a

little bit, but really, no.

MR. JOHNSON: Just a little bit? Okay. And steel grinding balls from China, do you know if there is any significant price advantage in the underlying high-carbon alloy steel bars for their production in --

MR. ANDERSON: No.

MR. JOHNSON: You don't know or there is no advantage?

MR. ANDERSON: No, there is none. There is none.

MR. JOHNSON: So the advantage mostly adheres in the production process?

MR. ANDERSON: Their advantage is the incentives that the steel producers receive from the Chinese government. Their grinding balls are nothing more than steel and a steel bar. It's interesting to note that there are grinding media balls and grinding media rods.
Rods are actually included in the tariff. They are exactly the same thing, but the balls are not.

MR. JOHNSON: Okay. And in the production process and technology, are you protecting that through patent or trade secret, both?

MR. ANDERSON: No. No.

MR. JOHNSON: Just trade secret?

MR. ANDERSON: Yeah.

MR. JOHNSON: Okay. All right. I'll be curious to see your details that you provide on that.

MR. ANDERSON: Will do. We will do that.

MR. JOHNSON: Thank you very much.

MS. SMITH: Good morning. My question is for Ms. Clas from Kodak Alaris. Thank you for your testimony. You mentioned that your company also has a company in Taiwan and that it would be difficult to source your products. But we would like to know, who are your other major competitors?

MS. CLAS: Our major competitor is Fujitsu.

MS. SMITH: Okay. And do they also source from China or --

MS. CLAS: Yes, they do.

MS. SMITH: Okay. Would it cause you any more difficulty if you had to look for other places, other countries to source your product?

MS. CLAS: Yeah. Out of the 1,200 items that we have that we source, only three of them can be sourced easily from a U.S. supplier. None of them can be sourced from Europe and it would take us up to six to 12 months to resource in the U.S. But the cost increase would be about 10 to 50 percent.

MS. SMITH: Thank you very much.

MS. HOLMAN: Good morning. My question is for Mr. Shaoulpour from HF Design, LLC. Thank you for coming today and thank you for your testimony. Has HF Design attempted to source these flooring products from sources outside of China?

MR. SHAOULPOUR: Yes, we have. We have tried to go to Europe as a one-source -- as a factor for some of these products.

MS. HOLMAN: And what sort of results have you found from your efforts to source outside of China?

MR. SHAOULPOUR: Well, we have found that the capacity, one, cannot meet the demands of the U.S.; and two, more importantly, them able to understand the specifications of our products, it does take time and there has been some downtime on that, affecting our supply side for our customers' demands.

MS. HOLMAN: Okay. Thank you. And my last question is -- I guess you've already answered that about the obstacles that you've faced in sourcing these products. Do you have anything else to add about what obstacles you've encountered trying to source outside of China or in the U.S.?

MR. SHAOULPOUR: I think more importantly is the quality. That, you know, does take -- I would say take many years to get to that level of the quality of the products. And if we do ever consider moving to another source it does take about 12 to 24 months, and that's something that we cannot -- it will hurt our business and it will hurt the business of many of our distributors and buyers.

MS. HOLMAN: Uh-huh. And how extensive is your distributor and buyer base? What kind of jobs are we talking about here?

MR. SHAOULPOUR: As we said before, we sell it through distribution, and that's across that country. That really trickles down to, really, the retail stores, which is the backbone of the U.S. government -- the U.S. economy, and a lot of these mom-and-pop stores.

So that's really how it's going to affect them and also affect the contractors and the installers.

MS. HOLMAN: Okay. Thank you very much.

MR. CONCEICAO: Good morning. My question is for Mr. Welch. Two questions, actually. First, are there countries other than

China from which you source parts for your product?

MR. WELCH: Not us directly, but in the industry I'd imagine there would be. The majority of trailer component parts are manufactured in China. Bias trailer tires, it's possibly been a generation since a bias trailer tire has been manufactured in the United States.

So I'm sure there would have to be a lot of sourcing to other Asian countries. For a small business like ours who is working day to day to optimize my supply chain, I certainly would not be looking forward to rebuild it.

But, yes, there would be other options, and if this does happen, you know, I'll work my tail off to support my company as best as I can to find those options. But I certainly wouldn't be looking forward to it.

MR. CONCEICAO: Understood. And perhaps you can outline just briefly what obstacles there might be to source, you mentioned tires and trailer parts, from countries other than China.

MR. WELCH: Capacity, quality. Something like a trailer tire, once you have it in your inventory and you've got years of use with that tire, it's not something you want to change quite often. So there would be a lot of obstacles, yeah.

MR. CONCEICAO: To your knowledge, are some of these components produced in countries other than China?

MR. WELCH: They are. Stateside there are some and, you know, we purchase from domestic manufacturers, Chinese manufacturers, Taiwanese manufacturers. I'm sure there are trailer tires made in countries such as Vietnam. But there would just have to be a lot of movement in the supply chain being that the capacity is so large in China for a lot of these, you know, low-tech, low-cost, heavy steel content trailer-related components. So that would just be a lot of rework that would need to be done.

MR. CONCEICAO: Thank you.

MR. WELCH: Especially for small businesses.

MR. CONCEICAO: Thank you very much.

MS. PETTIS: Good morning. This is a question for Ms. Wilson. There are many products in Chapters 84, 85, and 90 which are produced domestically and also in countries outside of China. Is it possible for ITI members to switch their sourcing? And, if so, how long do they estimate this would take? And if you can elaborate any other challenges that you might face.

MS. WILSON: Sure. So, as other witnesses have explained, there are often alternate suppliers, either within the East Asian region or in the U.S. But it's a question of cost, capacity, quality, and the time expended in renegotiating these contracts and reworking the supply lines.

That has two impacts on a larger -- on a tech company. One is in terms of sheer competitiveness, and this is applicable to small-and medium-sized and startup businesses as well.

If your primary task is to rework your supply lines and look for new suppliers and negotiate new contracts, that's time and resources away from competing and innovating against your competitors. Your competitors simply don't have that task to deal with. They have secured these markets. They have secured these suppliers and contractors at probably a very low or competitive rate, and you're searching for alternative sources to try to match that rate.

That takes time and energy and, at the end of the day, it may not even be feasible.

MS. PETTIS: Thank you very much.

MS. HOWE: My question's for Xiao Zhiyuan. In your testimony you state that certain types of flooring products are produced in China because the labor costs are lower than in the U.S. or EU. How many people are employed by Jiangsu Beier Decoration Materials in China that are part of this production process?

MR. ZHIYUAN: About 1,000.

MS. HOWE: Okay. And are they spread out throughout China or are they in one distinct region?

MR. ZHIYUAN: In one region.

MS. HOWE: Okay.

CHAIR TSAO: A quick follow-up, Mr. Xiao.

MR. ZHIYUAN: Sure.

CHAIR TSAO: How large is the U.S. market I guess either to your specific company or to the floor industry in China?

MR. ZHIYUAN: I have data for the 2016 from the U.S. association. It's around $24 billion for total for the flooring -- floor coverings. Everything. Everything in flooring. That is the manufacturer costs. So the retail costs will be -- I believe will be doubled, about $50 billion U.S. dollars.

CHAIR TSAO: What about percentage wise? Is the U.S. 25 percent of China's export market or --

MR. ZHIYUAN: No. I mean, it's the -- the $24 billion is for the U.S. market.

CHAIR TSAO: Okay. Thank you.

MR. BISHOP: We will release this panel with our thanks, and we invite the members of Panel 10 to come forward and be seated. And if the members of Panel 11 will please come forward and be seated in the waiting area.

(Whereupon, the above-entitled matter went off the record at 10:17 a.m. and resumed at 10:20 a.m.)

MR. BISHOP: Mr. Chairman, our first witness on this panel is Jonathan Cowles with Liberty Furniture.

Mr. Cowles, you have five minutes

MR. COWLES: Good morning. My name is Jonathan Cowles. I'm vice president/owner at Liberty Furniture Industries based in Atlanta, Georgia. On behalf of our entire company, I want to thank you for the opportunity to express our grave concerns regarding the new Section 301 tariffs and the devastating effects they would have on our company and the entire furniture industry.

A little bit about Liberty. Liberty Furniture was founded in 1992 with a vision for a furniture company that would design value-driven, quality furniture predicated on the values of hard work, fairness, and integrity.

Starting with only seven people in a modest section of warehouse in West Atlanta, Liberty Furniture opened its doors selling wood chairs and laminate tabletops. Since then, Liberty has grown into a comprehensive furniture supplier employing over 170 people, including multiple generations working side-by-side in our offices and warehouses.

We are a top tier supplier in the furniture industry and are proud to have strong relationships with many of America's top 100 retailers. However, I fear that our company's work, our core values, and the livelihood of our employees are in grave danger due to the new Section 301 tariffs placed on products from

China.

Today, I am here to implore the USTR to remove the 11 HTS codes under Chapter 94 that we listed in our request from the proposed list of products subject to 301 tariffs.

The furniture industry is not a high profit margin business and these tariffs would effectively act as an added tax on our company and our customers and have a severe impact on our business, likely forcing Liberty to cut high-paying U.S. jobs. While I applaud the decision to take on Chinese trade practices and actions, the placement of tariffs on furniture products is a misguided endeavor.

I cannot overstate the importance of furniture products from China, for not only Liberty but the entire U.S. market. Though the art of creating furniture is antiquated, the supply chain has become highly globalized, much like many other industries across the manufacturing spectrum.

Simply put, while the production of

furniture in the U.S. does exist, it cannot realistically match the volume and supply to fulfill the market demands due to a shortage in labor and lack of skill in the workforce.

Domestic production of furniture has steadily declined over the last few decades as more U.S. workers exit the industry and little onus has been placed upon young individuals in America to learn the trade and take up jobs in furniture plants.

Yet this is not a new development. Difficulty finding individuals to employ in furniture production has been problematic for the industry for decades, which is what prompted the shift in reliance on China. Therefore, Liberty Furniture, along with nearly the entire furniture industry, relies heavily on China to match the requirements of our customers.

Without China, we would have difficulty meeting the demands of our customers, which would undermine our principle of service and reliability to our clients and result in the loss of business.

Additionally, even if there were a labor supply in the U.S. to match our demand, materials would have to be sourced from China. Again, the globalization of the furniture industry means that virtually every company imports from China due to the established supply chain and skilled workforce. Liberty already faces a considerable challenge due to the previously implemented antidumping duties placed on wooden bedroom furniture products from China.

These new tariffs would make business with China even more difficult and costly to our company. Moreover, the tariff would force our company to offset the losses imposed by these tariffs through price increases on our products to our customers, which would ultimately be passed on to the American consumer.

The combined blow of new tariffs and a price increase on our products would be calamitous for our company and result in the permanent loss of customers and revenue.

While I applaud the Trump administration for their efforts at combating Chinese trade malpractice, I cannot emphasize enough the inherent threat the new Section 301 tariffs would pose to Liberty Furniture and the entire industry.

Although these tariffs have noble intentions, such as defending against intellectual property theft, Liberty Furniture and the whole industry does not experience such problems. Furniture as a commodity and the technology required for production is not surrounded by a shroud of secrecy. Instead, it is knowledge which is transparent and fluid across the industry. For this reason, I cannot help but feel that the intentions of the 301 tariffs in relation to furniture are misguided and ill-advised.

The belief that these tariffs would have maximum pain on China and minimum pain on U.S. consumers is simply not true, as these tariffs on furniture would be a direct hit on the

U.S. consumer. For these reasons and those mentioned above, I ask the USTR to remove tariffs on furniture imports under the HTS codes in Chapter 94 listed in our request to testify.

As an industry, these tariffs would lead to serious atrophy in all but cease any opportunity for growth and expansion. These tariffs would be devastating, not only to Liberty Furniture but to many other family-owned small- and medium-sized furniture companies.

Please protect our business and the U.S. jobs we employ and save an entire industry from irrevocable damage. Thank you.

MR. BISHOP: Thank you, Mr. Cowles. Our next witness is Bill Fagert with the Wooster Brush Company.

Mr. Fagert, you have five minutes.

MR. FAGERT: Mr. Chairman and members of the Committee, I am Bill Fagert, president for the Wooster Brush Company. I am here to discuss the reasons the USTR should remove certain materials from the proposed list of products subject to additional tariffs that Wooster uses in the domestic production of paint brushes. Those materials include hog bristle and synthetic monofilament of polyester, specifically, chemically-tipped, CT, polyester.

Neither hog bristle nor CT polyester are available domestically. The top of my written testimony contains the HTS U.S. subheadings at issue, which Wooster will present more fully in its written comments.

The Wooster Brush Company is a dedicated American manufacturer founded over 166 years ago. Wooster has remained independent, privately owned, and produces more than 2,000 products for painters of all skill levels. We have over 880,000 square feet of manufacturing, shipping, administrative, and warehouse facilities in the U.S.

Wooster's experience in the paintbrush industry is unmatched. We maintain the highest quality standards and continue industry-leading innovation with in-house engineering, production, graphic design, and printing departments.

Today, we proudly employ more than 600 dedicated employees. During the last recession, Wooster was so committed to supporting its U.S. jobs that it refused to reduce its workforce and instead its dedicated employees committed to reducing work hours to seven-hour days so that the company did not have to lay off a single individual. A picture of our employees is at the bottom of my written testimony.

To support our U.S. manufacturing, Wooster sources materials in the U.S. and globally, including China. Imposing a 25 percent tariff will negatively impact Wooster and the American consumer, including tradesmen, by significantly increasing Wooster's cost of manufacturing in the United States. It's estimated that the tariffs on these brush materials will negatively impact the company by more than $1 million annually.

To make matters worse, many of Wooster's competitors import complete paintbrushes from China. Finished paintbrushes are not subject to the proposed Section 301 tariffs. This means that while Wooster must pay a 25 percent tariff on certain domestically unavailable raw materials in purchased from China to manufacture products in the U.S., its competitors that import paintbrushes from China will not incur these same 25 percent tariffs.

In other words, the tariffs will punish American brush manufacturers like Wooster that are trying to achieve the administration's goal of investing in U.S. manufacturing and jobs, but will encourage the foreign production of finished brushes.

The subject hog bristles and CT polyester that Wooster is currently important from China are produced from mature technologies. Those products are not considered by China to be strategic or advanced. The technology associated with the production of hog bristles was well established over 150 years ago. The technology behind CT polyester was developed and originated in China more than 15 years ago.

Neither CT polyester nor hog bristle imported by Wooster advance China up the supply chain in any way. The hog bristle required by Wooster is no longer produced in the United States or it never was. The hog bristle cannot be produced from U.S. hogs due to their quick to mature growth pattern.

U.S. suppliers of polyester and nylon brush filaments show no interest in developing the chemical processes to produce CT polyester. Limited supplies of hog bristle and CT polyester are available in India. However, after five years of trying, Wooster still finds the Indian bristles to be too low-quality for Wooster's paint brushes.

In conclusion, Wooster believes that imposing tariffs on low-technology hog bristle and CT polyester from China will do nothing to influence the Chinese government's trade policies. Instead, imposing a 25 percent tariff on these materials will harm U.S. manufacturers like Wooster who committed to making paintbrushes in the United States, while its competitors who import finished paint brushes will not be harmed by these tariffs.

As a result of these tariffs, Wooster will likely have to pass on some costs to U.S. consumers, including tradesmen, as well as curtail its investments in manufacturing growth in the United States.

Therefore, on behalf of the Wooster Brush Company, I respectfully ask this commission to remove synthetic filament and hog bristle from the list of items proposed for the 25 percent tariff.

I do have a sample to display. You know, this is the product that we make. This is the product that our competitors import directly. We manufacture this. This is the polyester brush. This is the natural bristle brush.

So, thank you for your time and attention.

MR. BISHOP: Thank you, Mr. Fagert.

Our next witness is Paul Gosnell with Patriot Timber Products.

Mr. Gosnell, you have five minutes.

MR. GOSNELL: Good morning. My name is Paul Gosnell, vice president of Patriot Timber Products. Patriot is a 73-year-old company employing 12 Americans in Greensboro, North Carolina.

We are a developer of innovative wood products, often used as what we call underlayment, which is the layer of plywood installed underneath a variety of flooring surfaces. We hold numerous patents, and because of this we fully support enhancing patent protection.

However, imposing tariffs, whether 10 percent or 25 percent, on Patriot's imports of our patented products would be counterproductive, harming American jobs.

For this reason, we ask you to remove HTS Codes 4412.39.10, 4412.39.30, 4412.39.40, 4412.39.50 from any final retaliation list.

These products are plywood with a face and back of various kinds of softwood species, such as radiata pine. Because they are all subheadings of the same six-digit code, I will refer to them simply as HTS 4412.39.

Plywood imported under these HTS codes does not compete with any domestically produced plywood. In fact, the group of companies who filed an antidumping and countervailing duty case in November of 2016 against hardwood plywood products explicitly did not include softwood-faced plywood in their petition.

Our plywood underlayment panels are typically very thin, much thinner than any plywood the domestic manufacturers have made in decades.

Patriot Timber holds two patents for environmentally-friendly substitutes for various tropical species that have been sourced from Southeast Asia for decades.

Our patent covers plywood of a type classified in HTS 4412.39. This product was not developed to compete with any domestic product. Our products do not have to be beautiful, only stable, very consistent in dimension, two characteristics that are enhanced by how our patented products are made.

Imposing retaliatory duties on HTS 4412.39 would not assist the U.S. goal of enhancing intellectual property protection. In our case, it would be the opposite effect, impairing our ability to import our own product that is covered under valid registered U.S. patents.

Duties would have a negative impact on our American employees and those of our valued customers and no benefit to the Committee's stated goal. For this reason, we ask you to remove HTS 4412.39 from the retaliation list. Thank you for allowing me to testify today.

MR. BISHOP: Thank you, Mr. Gosnell. Our next witness is Jerome Kearns with Four Hands, LLC.

Mr. Kearns, you have five minutes.

MR. KEARNS: Members of the committee, good morning. I am Jerome Kearns, chief operating officer of Four Hands, LLC. I am here today to discuss the reasons USTR had removed certain furniture that Four Hands imports from the proposed list of products subject to additional tariffs. The top of my written testimony contains the HTS U.S. subheadings at issue, which Four Hands discusses more fully in its written comments.

The company is a leading supplier of furniture to large retailers, interior designers, and individual customers across the United States. Established in 1996, Four Hands is a thoroughly American company based in Austin, Texas. The company employs 250 people across the United States and supplies an estimated .4 percent of the furniture market.

The goal of Four Hands is to supply qualify furniture to American business and consumers. To meet that goal, the company purchases furniture and decorative accessories from the United States as well as globally, including China.

Imposing a 10 percent tariff, let alone a 25 percent tariff, on the goods we import from China will negatively impact Four Hands and the American consumer by significantly increasing the cost of our customers' end products.

Although the company understands the philosophy of the administration to target industries and products that China aims to support in its Made in China 2025 strategy, targeting furniture products does nothing to inhibit China's technological advancements and only serves to hurt the American consumer.

The above classification should be excluded from the additional tariffs because, one, the products do not fall under the ten industries targeted in the Made in China 2025 policy; two, Four Hands has attempted to source its product lines in countries outside China; and three, the economic impact of the tariffs will disproportionately impact American jobs and consumer prices.

Our sources construct product mainly using common hand tools and not sophisticated equipment. Four Hands products targeted for additional tariffs cannot be considered high-level technology that China is targeting to advance its Made in China 2025 strategy. These products are not made with leapfrog technology. Products sourced from China consist of wooden and upholstered products utilizing low-technology labor and craftsmen to produce tables, chairs, and other home furnishings.

Four Hands also appreciates the administration's attempt to source these products from outside China. Four Hands sources from Vietnam, Mexico, Indonesia, and the United States.

For products that remain China, for various reasons it is the only country from which to source these products. Finding suppliers outside of China that can combine fabric and leather along with metal or wood into a viable commercial furniture product, produced at the capacity needed to fulfil the company's needs, has proven to be difficult.

The fabrics used to upholster Four Hands' seating collections are dependent on the scale and capability of Chinese textile mills. In the event we were able to find sources for the assembly of the product, the textiles used are only available through Chinese sources.

The economic impact of an additional 10 percent duty on our products would have an immediate impact on our business. As a small business, we will not be able to sustain the economic impact to our margin and we'd be forced to pass some costs downstream.

As an initial response, we would implement austerity programs that would freeze hiring and wages and curtail discretionary spending. Our company has been growing rapidly and current plans call to expand our U.S. officers and warehouses in 2019. These plans would be placed on hold.

In addition, profits, and subsequently our profit-sharing with employees, would be impacted. For the last several years, profit-sharing has accounted for 15 percent of employee income and is a significant element of our recruiting.

Costs that we couldn't absorb would be passed down on to our customers in the form of higher prices. Our customers would put increasing pressure on Four Hands to absorb the tariffs' impacts, leading to negative customer interaction and a potential loss of business.

A 25 percent tariff would compound this dramatically. These impacts would last at least two years, as we must cycle out of these products and source from other countries. Sales of popular items would be lost forever and customer relationships that have been in place for up to 20 years will be strained and potentially damaged beyond repair.

Imposing a tariff on the imports described above would not in any way influence the Chinese government to alter or change the policies and practices identified by USTR in its Section 301 report.

Instead, the additional tariffs would damage U.S. companies and consumers. Harming a company like Four Hands, which is investing heavily in the American economy, should not be the goal or consequences of tariffs. We have added over 100 jobs in the last four years in the United States.

Therefore, Four Hands urges the USTR not to impose a 10 percent tariff, let alone a 25 percent tariff, on products classified under HTS U.S. subheadings mentioned above.

Thank you for the opportunity to testify today. I have included some pictures of the products that we source from China that we cannot source from other countries.

MR. BISHOP: Thank you, Mr. Kearns. Our next witness is Gary Trapp with Cascade Wood Products, Incorporated.

Mr. Trapp, you have five minutes.

MR. TRAPP: Thank you for allowing me the time to express my deep concern over the impact of China's trade policies and practices on Cascade Wood Products and other United States millwork manufacturing companies.

Until recently, Cascade could be considered a strong reflection of the American dream. The two principal owners started working at Cascade not long after graduating from high school. After years of hard work and by being willing to risk all, they bought the company in 1978. From that point forward, they ran the company with the focus on providing well-paying jobs with great benefits for families in the community.

They view the employees as an extension of their family and are very concerned about the welfare of both the employees and the community. Indeed, many of the employees have been with the company for more than 25 years, and for some their entire working career will be at Cascade.

Over the last 40 years, Cascade has faced and overcome many different challenges. These range from the 1981-82 downturn in housing, reduced and restricted supplies of raw materials in the '90s, an influx of South American competition in the early 2000s, and the collapse of the housing industry in 2008 and '09.

While these periods were difficult, Cascade was able to manage and adapt to the challenges and continued to provide good jobs for families in southern Oregon. We were able to do this through innovation, investment, and by focusing on areas of strength during these difficult times.

Unfortunately, the challenge we face today from cheap Chinese imports is far more difficult and poses a grave threat to Cascade and the 200-plus families that are dependent upon Cascade.

The two main areas of concern are the broad HTS Codes 4409.10 and 4418.20. Since 2003, the combined import value of these two codes has risen from $29,355,000 to $284,666,000 in 2017. This translated into a total percent growth from 2003 of 870 percent. In comparing this to actual U.S. housing starts over this period, the combined number of Chinese moldings and frames used per housing start rose from $15.89 in 2003 to $236.65 in 2017.

While this may not seem like a large increase considering the overall cost of a new house, the loss of just a couple dollars per start is devastating to Cascade and our employees.

Of course, the natural question is what's driving the move to Chinese imported moldings and frames. The answer is very simple: below market prices.

Currently, a pair of molded, primed, and delivered door frames is being imported at a cost of $8.94 per pair; or, to use the common measurement in our industry, $1,242 per thousand board feet. These prices are barely above the cost of raw material.

Most of the Chinese frames are made from radiata pine lumber sourced from Chile and New Zealand. And based on the currently published price of Radiata #3 Shop plus freight, divided by the percent of recovered wood, their cost of materials is approximately $1,014 per thousand board feet, or $7.30 per pair of frames. This is before any labor and overhead for cutting, joining, molding, priming, and shipping costs to the United States.

In other words, raw materials costs are 82 percent of their selling price and they only have $1.64 to cover all of the manufacturing and shipping costs plus any profit.

While labor costs are lower in China, it is very unlikely the prices they are charging cover all their costs or provide any profit for the seller. These prices are simply designed to gain market share and drive U.S. producers out of business. These pricing policies are already having an impact on U.S. companies with a number of facilities reducing production or closing operations.

Unfortunately, if nothing is done, more jobs will be lost. The impact is not just limited to the molding and millwork manufacturers but will also impact the lumber mills that supply Cascade and other producers of millwork. With fewer customers for shop grade lumber, more lumber mills will close, impacting smaller communities and the health of our forests.

Although we have heavily invested in creating one of the most effective and efficient cutting systems for shop lumber, we cannot compete with prices that are below cost and, respectfully request that you increase the posed tariff on the previously identified HTS codes not just 10 percent but to a minimum of 25 percent.

The recent devaluation of the Chinese yuan has already offset most of the proposed 10 percent tariff. This tariff will help ensure the continued viability of both Cascade and other U.S. wood product companies and retain valuable jobs for families and smaller communities.

Thank you for your time.

MR. BISHOP: Thank you, Mr. Trapp. Our next witness is Mike Pedersen with Alta Forest Products.

Mr. Pedersen, you have five minutes.

MR. PEDERSEN: Thank you. My name is Mike Pedersen and I am CEO of Alta Forest Products, headquartered in Chehalis, Washington. We are the largest U.S. producer of fencing boards and we employ over 400 people at family-wage jobs.

This hearing could not have come at a better time as our industry is under attack from a flood of Chinese imports. Not long ago, we had to look 40 of our workers in the eye at our Shelton, Washington sawmill and lay them off, an entire shift, because of the unfair competition from these Chinese imports.

I am here today to urge you to maintain fencing products on the final tariff list and to impose a tariff of at least 25 percent. Tariffs on Chinese imports of fencing products are urgently needed to protect American jobs.

I have worked at Alta Forest Products or our predecessor companies for 45 years. I grew up in Morton, Washington, a small town in the Cowlitz River Valley, overlooked by Mount Rainier, the same town where our flagship mill sits. I started as a lumber grader and stacker in 1973. I worked my way up through the organization, eventually rose to CEO.

Today, our company is the largest domestic producer of wood fence boards, specializing in western red cedar and other premium species found in our Pacific Northwest forests. We operate fence board sawmills in the rural communities of Morton, Shelton and Amanda Park, Washington, as well as Naples, Idaho.

Alta's mills are uniquely designed to efficiently cut boards that make beautiful and natural fences and leaves zero waste in the process. In addition to producing fence boards, we produce byproducts such as garden mulch and biofuel used in clean energy production, as well as wood chips and sawdust, which are used to produce protective garments in the medical industry.

You can buy our fence boards at home improvement retailers such as the Home Depot and Lowe's, as well as many other distributors and fence installers throughout the U.S. We use genuine western red cedar sourced from North America, including public and private lands in Alaska, Washington, Oregon, Idaho, Montana and California.

In addition to providing revenue to local counties, state schools, and forest service programs, Alta's purchases of wood from public lands help land managers achieve forest health and fire prevention goals.

Over the last five years, Alta has invested more than $25 million of capital into its manufacturing and operational facilities. We directly employ more than 400 people and we are proud to provide family-wage jobs that include family healthcare and retirement benefits to our workers, in areas where these opportunities are increasingly rare, especially for individuals without college or graduate degrees. Our employees are the heart of our company and our rural communities. They are the strong middle class men and women who live out the American dream.

The U.S. fencing industry is facing ongoing and severe injury from Chinese imports. The domestic market is currently being flooded with Chinese fencing products. Chinese cedar is actually softwood grown primarily in northeast Asia. It's a member of cypress family. Before being described as a "cedar" for marketing purposes, this species was more commonly called Chinese fir or China fir.

Based on products arriving to Texas during the second quarter of 2018, these imports are presently undercutting American products by as much as 38 percent. Arguably, this data could support a duty of up to 60 percent if the objective is to equalize pricing levels. So a tariff of 25 percent or is entirely appropriate.

Published shipping data shows how the Chinese imports are flooding the market. The number of containers of Chinese fencing imports has increased from 92 containers in 2014 to 1,293 containers in 2017 and 909 in the first have of 2018. Thus, Chinese fencing products imports will have increased by a factor of 20 in only four years.

Based on the revenues we have lost due to the Shelton shift layoff, we estimate the current impact to the industry as approximately $43 million on an annual basis. This does not include lost wages from laid-off workers or losses to the local economy from the expenses these workers can no longer cover.

American companies and workers in our industry are thus competing on an uneven playing field. By imposing a tariff you will preserve family-wage jobs in our communities.

For these reasons, we appreciate the

administration's efforts to promote fair trade with China and believe the inclusion of fencing products on the proposed tariff list as listed in my written testimony would be an effective means of achieving this goal.

We therefore urge you to maintain fencing products on the final list. Moreover, in light of the harm currently being caused to our industry by Chinese imports, we urge the committee to consider increasing the tariff on these particular products to 25 percent or more.

Thank you.

MR. BISHOP: Thank you, Mr. Pedersen. Our final witness on this panel is Wu Shengfu with the China National Forest Products Industry Association.

Mr. Shengfu, you have five minutes.

MR. SHENGFU: Good morning, ladies and gentlemen. My name is Wu Shengfu and I am the vice president of China National Forest Products Industry Association. My association represents Chinese producers of various wood products, including producers of plywood, multi-layer wood flooring, laminated flooring, vinyl flooring, bamboo flooring, and cabinets.

I am here today to request the USTR remove such products from the proposed list. Imposing additional duties of 25 percent on these products will not achieve the objectives of the administration. The initial list of the products proposed by USTR identified products that allegedly benefit China's industrial policies, including Made in China 2025.

The products I am discussing today here have nothing to do with Made in China 2025.

First, the objective of the administration will not be achieved by the imposing of additional tariff on wood products.

USTR investigated certain alleged acts, policies, and practices by the government of China related to technology transfer, intellectual properties, and innovation.

Our industry is labor intensive rather than the kind of high-technology industry that the government of China is allegedly trying to promote. An imposition of additional tariff on wood products from China will not change anything.

Second, the imposition of additional duties will have a negative impact on the U.S. wood industry, both on the domestic side and also in export side. On the U.S. domestic side, there is no sufficient capacity in the next couple of years to produce many of these items that are currently bought from China. But a cutback of Chinese import of these products will also affect the U.S. exporters because China simply will use less wood imported from the U.S.

In 2017, China imported over $1.5 billion of U.S. hardwood lumber, which is used in the production of downstream wood products produced by our member companies. For example, American walnut and red oak are in high demand from Chinese manufacturers. Red oak going to China accounts for 78 percent of all red oak exported by value from the U.S.

Higher tariffs on Chinese wooden products will lead to lower demand for the products produced by our member companies, which will in turn lead to lower demand for the U.S. hardwood lumber.

Some products are produced only in extremely limited quantities in the U.S. For example, bamboo flooring has been a growing category in the market and much of the world supply is in China. The U.S. grows little bamboo and produces almost no bamboo flooring. But even in some more traditional categories of flooring, there is not a sufficient production capacity in the U.S. to supply the demands of the market in the time when the product is needed.

Finally, the imposition of additional duties will also lead to higher prices for our customers in the U.S. The wooden products I mentioned are used primarily in new home construction and existing house remodeling, and any additional tariffs will have a huge impact on these sectors in the U.S., especially in combination with the other tariffs already imposed by the administration.

Hardwood plywood and the multi-layer wood flooring are already subjected to additional tariffs under the current antidumping and the countervailing duty laws.

Ultimately, all of these tariffs have or will negatively impact the U.S. housing market and housing affordability, particularly for low income families. The National Association of Homebuilders has estimated that for every $1,000 increase in the price of a house, 150,000 Americans are priced out of the market.

For all of these reasons, we respectively request that USTR remove the tariff subheadings covering plywood, multi-layer wood flooring, laminated flooring, vinyl flooring, bamboo flooring, and cabinets. The tariff numbers of these products were contained in our request to appear at this hearing and also will be resubmitted with our written comments.

Thank you, and I will be happy to

answer any questions.

MR. BISHOP: Thank you, Mr. Shengfu.

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

MR. JOHNSON: My question is for Mr. Cowles, Liberty Furniture. In your testimony you argue that the U.S. does not have capacity to produce the kinds of furniture that are currently imported from China. Can you expand on this?

MR. COWLES: Yes. As far as if these new tariffs were placed on China, I think the overall demand currently coming out of China we don't currently have the capacity in the U.S. to support that. It would overwhelm many of our existing resources.

MR. JOHNSON: Do your competitors source from China as well?

MR. COWLES: Yes.

MR. JOHNSON: And as far as the design of the furniture, is that something you do or is that something you do in partnership with your Chinese supplier?

MR. COWLES: The design is done here in the States.

MR. JOHNSON: Is here in the States.

MR. COWLES: Yes, sir.

MR. JOHNSON: Okay. And do you source from countries outside of China?

MR. COWLES: Yes, sir.

MR. JOHNSON: What other countries?

MR. COWLES: Primarily Vietnam and Malaysia.

MR. JOHNSON: And are they specific to particular product lines?

MR. COWLES: Yes. You know, I mentioned in the testimony the dumping of bedroom furniture out of Vietnam and dining primarily out of Malaysia. There are certain products we just can't -- the skill force and the nimbleness of the supply chain we can't replicate in those countries.

MR. JOHNSON: Okay. So those are the constraints to shifting --

MR. COWLES: Those are some of the

constraints.

MR. JOHNSON: -- furniture lines from China to at least Vietnam. What was the second country?

MR. COWLES: Malaysia.

MR. JOHNSON: Malaysia. All right. Thank you very much.

MR. MULLIS: Hi. I have a question for Bill Fagert of the Wooster Brush Company. You mentioned that the Wooster Brush Company tried to source the hog bristle and the CT polyester from India and there was problems with the hog bristle quality from India. Could you mention -- were there any concerns with the CT polyester from India?

MR. FAGERT: We haven't developed that sufficiently to know. At this point, the quality is not there. You know, it could be brought along but it would take a long time.

There is a number of barriers that come into effect. One is quality. Two is capacity. Three is logistics.

And I'll try to be brief, but, you know, we manufacture over 95 percent of what we sell here in the United States. We do import other products, including, for example, finished paint roller frames. We manufacture high-end paint roller frames, but we import some consumer-level roller frames.

So, you know, for us to be effective logistically, we have to fill containers, and we're able to fill containers with hog bristles, CT polyester, and roller frames, as an example.

Those roller frames are subject to the Section 301 tariff. We are not objecting to that, because that's a level playing field on a finished good. What we are objecting to is, you know, we make this and our competitors bring in a finished good and we are being penalized.

Did I answer your question?

MR. MULLIS: Yes.

MR. FAGERT: Okay.

MR. MULLIS: I have a follow-up question. Can you provide any more details on the attempts to get CT polyester from other countries besides India and China?

MR. FAGERT: There -- CT polyester is not available in any other countries that I am aware of.

MR. MULLIS: Okay. Thank you.

CHAIR TSAO: I have a quick follow-up to that. The brushes that Wooster makes, is that of a higher quality product or does it compete equally, the same level entry point product as do the similar products as imports?

MR. FAGERT: Yes. Over the years, our market share has gravitated towards the upper end because we have trouble competing in the lower end price-wise. We do make some lower end products. We think they are the best lower end products on the market, but we have challenges competing on price with those.

MR. CONCEICAO: Good morning. My question is for Mr. Gosnell. Mr. Gosnell, does Patriot Timber Products import plywood from any other countries in Asia?

MR. GOSNELL: At the moment, we don't. We have over the years. These panels, underlayment panels have never been domestically made. Traditionally, in the last 50 years, they've come from any tropical -- any country that has tropical species: Philippines, Indonesia, Malaysia, Brazil.

But when the U.S. put wood products on the Lacey Act in 2008, a lot of scrutiny came upon those countries because a lot of those tropical species were coming from illegal sources. So most of these thin panels gravitated to China because they are sustainable and plantation sources. So that's where the industry gravitated after going through all these other countries.

MR. CONCEICAO: Okay. Is there something that might prevent you from sourcing a similar product either elsewhere in Asia or elsewhere in the world even?

MR. GOSNELL: We can still source from those countries. They would not have the volumes needed to cover it because of the sustainability issues.

Also, from our products, we have patents on a couple of our -- on our products. These other countries have never been flexible enough to make or to develop new panels. They are not exactly market-driven. They are, "here's what we make, you buy it." Whereas in China they've shown the flexibility that if you go with them with new ideas, new innovations, that they are willing to look at it and produce it.

MR. CONCEICAO: All right. Thank you very much.

MS. SMITH: Good morning. Thank you for your testimony. My question is going toward Mr. Kearns. Mr. Kearns, how many years has Four Hands been sourcing furniture products from China?

MR. KEARNS: We've been sourcing furniture products from China -- we started importing from India and China in 1996.

MS. SMITH: Okay. And my second

question is: by what percentage do you estimate your costs would increase if you moved production outside of China?

MR. KEARNS: We're not quite sure what the production cost would increase. But the logistics costing also would go up. As Liberty Furniture mentioned earlier, the cost of -- first of all, we are a style-based company and it's very difficult -- the reason I included pictures in our testimony is that it's very difficult -- if you look at the pictures in the back you'll see two chairs and a table, and we can't source the craftsmanship elsewhere.

So we are not sure what the cost would be. Every time we've moved a product from Mexico to Vietnam, eventually the product did not take off. We lost the business. We have also moved product from China to Vietnam recently, about three years ago, and we lost that business as well.

It's very difficult for us to take the same exact style -- it's a craftsman-based business -- to take that same exact style and have it replicated. The product never comes out the same.

MS. SMITH: All right. Thank you. That's a very nice product.

MR. KEARNS: Thank you.

MS. SMITH: Thank you.

CHAIR TSAO: That's not an official endorsement by the U.S. government, just to be clear.

(Laughter.)

MS. HOLMAN: Good morning. My question is for Mr. Trapp. Thank you very much for your testimony. If tariffs were to be imposed on the products you mentioned in your testimony, does your company, Cascade, or the domestic industry, have the capacity to supply the domestic demand for these products?

MR. TRAPP: We could meet a great deal of it. Currently, we are operating at, roughly, 40 percent of our capacity due to the rapid influx of these products.

I know you're going to hear testimony tomorrow from one of our American competitors who has recently closed a facility in Kentucky because of the imports. Other companies have also curtailed production. Sierra down in California has shut down a shift. All of us still have most of our facilities in place to rapidly increase if we could be competitive.

Unfortunately, the pricing is such that there is no way for us to compete against products coming in with the raw material cost of over 82 percent.

We have close relations with a number of the big producers out of Chile and they've told us that often they are not pricing based on random lengths but the prices are even higher than that of what they ship to China.

MS. HOLMAN: Thank you very much.

MS. PETTIS: Mr. Pedersen, I have a question for you. If tariffs are imposed on these wooden fence products, does Alta and the domestic industry have the capacity to supply domestic demand? And, if not, how long would it take the domestic industry to build the capacity?

MR. PEDERSEN: Yes. Alta has idled capacity at this time. As I stated in my testimony, we have recently laid off a shift at one of our facilities, as well as our competitors who are -- we have two fairly sizeable competitors that are both running single shifts at this time.

Currently, we are all sitting on some of the highest both finished goods and raw material inventories in our history. So there is a backlog of material and idled capacity right now.

MS. PETTIS: Okay. Thank you very much.

CHAIR TSAO: This is a follow-up for Mr. Trapp and Mr. Pedersen. In your view, what are the reasons for the very cheap low prices of your Chinese competitors' products?

MR. PEDERSEN: Well, from my standpoint, with the fencing, the wood coming in is used to be, like I commented on, it's actually a fir being marketed as a cedar. It's also not being properly heat treated. It's something we are also dealing with the Department of Agriculture on. There are shortcuts being taken.

So this wood is arriving over here without even being properly processed. So that's why I think we are seeing the flood of it. It's just cheap.

MR. TRAPP: From our perspective, we believe they are getting some supports in order to gain market share. The pricing cannot be sustained with the level of material costs that they have. So there has to be some supports, either through government or some other form, in order to be importing products at that level.

MS. HOWE: My question is for Mr. Wu. So, can you tell us if the majority of the exports from your Association Members go directly to the United States?

MR. SHENGFU: You mean how many by volume or by the numbers?

MS. HOWE: Both.

MR. SHENGFU: Come directly China on the production side actually -- understand. And so for the products covered by the flooring plywood and the cabinets as well as the furniture.

Since the products are labor intensive which is suitable for China to manufacture and America nowadays, is one of the biggest markets for Chinese, and also on the other hand, we import a lot of materials from the U.S.

Like for the number, we import over $1.5 billion from the U.S. for the downstream production.

So the products we deliver for furniture, for flooring, for cabinets, there's quite many of the raw materials are coming from the U.S., especially for the Red Oak and walnut species.

So I think these products are quite good and suitable for the consumers here for the U.S., beneficial for the U.S. houses, and the art decorations.

MR. SHENGFU: Do you have other major export destinations aside from the United States?

MS. HOWE: Oh, yes, actually nowadays China also imports and exports products, not only for America but also for Europe, the Middle East, Africa, and the South America as well. Also our neighbor countries like Japan.

MR. SHENGFU: And then, you know, aside from the raw materials that you mentioned also in your testimony, do your members import finished products from the United States?

MS. HOWE: Oh, yes. Actually, a number of the products are also imported like the furniture. We also import from the U.S. as well as we import flooring from the U.S. for those niche products because these are the products made for both sides markets.

MS. HOWE: Do you know what China's tariff rate is on those U.S. products?

MR. SHENGFU: You mean tariff rate?

MS. HOWE: Yes, any of the government

tariff rates on the U.S. imported products.

MS. HOWE: Nowadays, for timber it's actually zero and for the product side, there are certain on the product side which I do not exactly know for those.

I can submit later or by request via the written comments.

MR. BISHOP: We release this panel with our thanks and we invited the Members of Panel 11 to please come forward and be seated.

Will the room please come to order? If everyone can take their conversations out into the outer lobby, please? If the room will come to order?

Mr. Chairman, our first witness on this panel is James Archibald with William T. Burnett & Company. Mr. Archibald, you have five minutes.

MR. ARCHIBALD: Let me try that again. Good morning, Mr. Chairman, and Members of the Committee. My name is James Archibald, I am the Vice President of administration and regulatory affairs for the William T. Burnett Company.

Burnett is a family-owned company that's been in existence for over 100 years. Our company and the U.S. consumers of the products we make will be harmed greatly by the proposed tariff on goods.

That's submitted under Subheading 5504.10.00, that being viscous rayon. We urge that this Subheading be removed from the proposed supplemental action.

We have a manufacturing plant in Statesville, North Carolina that employs around 155 people and we have one in Phoenix, Arizona that employs around 25.

These particular plants make a fire barrier material for mattresses that enable the mattresses to pass U.S. flammability regulations and requirements.

We're not making the mattresses themselves, rather, it's a barrier that the manufacturers of the mattresses put on. The mattresses are then tested to show that they comply with the flammability requirements.

Due to the competitiveness of the bedding business and particularly foreign inputs to the bedding business, our margins on these fire barrier products have steadily declined over the years.

This is a product that's been in place since around 2006 when the flammability regulations came into being and the manufacturer of mattresses had to comply with them.

The importance to us is a subcategory of rayon, specifically fire-retardant rayon, FR rayon. It's a necessary raw material for our fire barrier products and unfortunately, there's no production of that FR Rayon in the United States.

Thus, we have no choice but to import it. We import it under the rayon subheading for a broader category than our particular concern.

I'd like to remind the Members of the Committee that this kind of a circumstances where a critical raw material for us is not available has to be purchased somewhere and also imported.

It's something Congress has been looking at in the miscellaneous trade bill. The Senate recently, of course, took that up, and Senator Hatch I think in his statement, as the Senate passed that legislation, sent it back to the house, spoke about the predicament that we and others have, noting that it'll help American companies compete across the globe and create economic benefits domestically for those companies, reducing the trade barriers for those American manufacturers like Burnett that need products that are, Senator Hatch called it, difficult to obtain in the U.S.

We're not facing this issue where it's difficult to obtain, we're facing this situation where it's impossible to obtain it domestically.

As noted in my materials, we're looking at an annual production globally of about 20,000 tons, China being the great majority in terms of the production of that.

A few others, a little bit from India,

Germany has gotten out, Japanese have gotten out, largely because the margins that can be made on rayon generally are significantly higher than on this smaller product.

And the significance is the fire barrier or the fire chemicals are infused into the rayon as it's being manufactured. When it's in that liquid state going from the wood pulp to the finished product to try and impregnate it here with rayon that comes in from somewhere else, it just doesn't work.

The testing shows that this particular methodology of creating the FR rayon is critical, it's critical to us, it's critical to, we believe, the whole bedding market in terms of what we're trying to do domestically with it.

If, in fact, the Committee were to conclude that rayon should continue to have the higher tariff, we would urge, as was done in the first round so that an opportunity be given for specific product exceptions for this particular subproduct.

Thank you very much.

MR. BISHOP: Thank you, Mr. Archibald. Our next witness is Sheila Eads with ERB Safety. Ms. Eads, you have five minutes.

MS. EADS: Hi, good morning, my name is Sheila Eads, I'm the CEO of ERB industries. We're a U.S.-based manufacturer located in the metropolitan area of Atlanta, Georgia.

We've been in business since 1956 manufacturing plastic products. In 1972, we added the manufacturing of sewing products. Our brands are ERB Safety and Fame Fabrics.

Coincidentally, also in 1972, OSHA was created and at that point, ERB industries began producing and selling the hard hats to industry. And from that point on, we began to provide other personal protection products to assist in the health and safety of workers.

Until 2001, our sewing products were manufactured in our U.S. plant but as competitors moved to NAFTA countries and then again to Central America due to CAFTA.

We also moved our sewing manufacturing to offshore locations, which helped us remain competitive. This did result in a decline of over 100 employees from its peak so I feel like we know intimately what it's like to lose employees due to trade issues.

Our Personal Protection Products Division, again, known as ERB Safety, makes headgear from predominantly hard hats and related items in the United States.

We have a sizeable employee base to support the manufacturing process, which includes injury molding operators as well as tool-making, R&D, process control, quality assurance, assembly, production scheduling amongst others.

We also employ a sales and marketing team whose primary focus is selling and growing our hard hat business throughout the country.

Growing our market share has not always been easy due to incoming imports which are less expensive, helping China-manufactured hard hats gain acceptance in the marketplace based on price alone.

In reviewing tariff codes 6506.10.60 and 6506.10.30, since 1998, just 20 years ago, there has been a 23.5-fold increase in headgear imports from China, from $12.5 million to $292.5 million, driven primarily by two factors.

Some hard-hat producers that were in the U.S. outsourced their hard-hat production capacity to China, obviously to obtain the lower cost. Second, there has been an explosion of China domestic firms who have adopted the technology.

Many have entered the U.S. hard-hat market often at what seems to me as non-competitive cheap pricing. Furthermore, we also knew through testing at our in-house laboratory that imported products have issues complying with American performance standards so not only do we compete on price alone but on the price of a generally inferior and sometimes dangerous product.

We and other U.S. producers are aware

that some of the inherent cost of production for hard hats, the cost of testing, standard compliance and other costs may not be incorporated into the prices of China's imports of these products.

With the cost of U.S. regulations and the large variance of labor costs in the United States as compared to China, it's a disadvantage to U.S. headgear manufacturers as much of the growth in the market is from China price-point products.

As you know, tariffs are widely different and seemingly not systematic, where a sewn garment bears a tariff at 23 to 32 percent as compared to a hard hat or headgear product, which has a zero tariff.

The result of the zero tariff has opened the door for growth and oversees manufacturers to enter the U.S. market. The lopsided increase in imports, as noted previously, of headgear products from China as compared to all other countries points to the

Chinese Government's trade policies.

We do not believe that a tariff of 10 percent is suggested as balanced trade. The tariff should be much higher.

If fair trade is implemented, we should be able to, our company should be able to, double our hard-hat business, a very probable scenario based on the volume of headgear products that are now made in China.

This growth would allow ERB to invest in the purchase of additional machinery and equipment, the hiring of more employees, and raising wages.

I do have two closing comments and a question.

First, ERB industries would like to say that we faithfully comply with all U.S. Government rules and regulations and we expect to and do participate in the health and welfare benefits of our employees and the payment of all taxes to support our country.

Second, ERB and other U.S. firms have

been at the forefront of development and standardization of safety equipment for many, many decades. Through our collective efforts in U.S. standard-setting and compliance, we have made the workplace a safer place.

This process takes years of work and a lot of investment in R&D expenses but my question has always been how is our Government helping us?

Based on the current tariff structure, it seems that our government has been more interested in helping companies source products from overseas through a zero tariff, rather than assisting manufacturers who make products and employ citizens right here in our country.

So I want to thank you, the Panel, and the Trump administration for giving me this opportunity to voice these issues today. Thank you so much.

MR. BISHOP: Thank you, Ms. Eads. Our next witness is John Howard with Coil Wholesalers LLC. Mr. Howard, you have five minutes.

MR. HOWARD: Hi, good morning, thank you. So, my name is John Howard, I live in Frisco, Texas. I'm a U.S. citizen, I am a majority owner and president of a small, two-person business.

I earn my living importing things called atomizer coils into the United States and distribute them to vape shops.

I believe my business would be adversely affected by the proposed Section 301 tariffs in Tranche 3, that specifically being U.S. tariff -- I don't know what HTSUS stands for but tariff code 8543.90.8860.

If you look at Exhibit 1 in my packet, I want to just give you a rough idea of what we're talking about. So in the vape industry, this is a vape mod. I'm not a consumer of this, I just make a living distributing parts to it.

This entire device is covered under 854379940. That is a personal electric or electronic vaporizer. I have carved out a niche supplying vape shops with a consumable for these devices and that's called an atomizer coil.

There's over 600 different designs of these things, they're machined in a way that fits inside this tank. Kind of like a lightbulb, they heat up, they burn out.

So this is what we're talking about and this is classified as parts of personal electric vaporizers. That's 8543.90.8860 so that's what we're talking about today.

The above referenced products that we're talking about are only available from China due to some FDA regulatory issues. Basically, that's the only way or the only thing that's legal for sale in the United States right now.

As I've said, my business will suffer economic harm from this proposed duty on these items. Further, I believe that will severely impact the small businesses that I serve.

Conjointly with that, stuff that's consumed in these devices is called e-liquid and almost all of that is made in the United States.

And as these are consumer products, if

you increase or put a tariff in the value chain, we're going to increase prices at retail, you're going to essentially decrease volume of the product sold if you have the same law it's been, and that's going to decrease the amount of e-liquid consumed in the United States that was made in the United States.

And e-liquid sales are probably five times the size of coil sales. So, by increasing the price of these items through tariffs, you will decrease the consumption of a U.S.-made good.

So, what else do I have for you? As a small business, I am a two-person company. I have probably spent 30 hours on this document. I don't have any law firms or trade associations helping me.

I do hope you'll read it, I really spent a lot of time on this trying to convey in words instead of testimony what's going on with all this. I have spent $1035 coming here today.

This is a burden on small businesses.

We don't have a good trade association so to speak but I want to speak for my industry today. So, let's make it real.

So we talked about what I sell, we've talked a little bit about the lack of substitutes, and this is on Page 2 of my testimony.

Looking at the U.S. census data, you'll see 97 percent of this class code is imported from China and I just want to convey to you really there are no substitutes.

These little items are OEM only, nobody else makes them so there's one source for them, China. You put the tariffs in, the tariffs are going to hit the retailers. Let's see here. So our customers, let me tell you a little bit about our customers.

That would actually be Exhibit 3. This is an example customer, this is a guy named Mickey Jones. He owns Southern Vape in Selma, Alabama. Last year he bought about $26,000 worth of coils for me.

It's just a one-person shop, he supports his family with it but there's 17,500 guys like Mickey Jones in my leads database. I've only got 265 customers right now but I know who these people are in this industry.

And in contrast to Mickey Jones, on Thursday of last week the Wall Street Journal had this piece on the front page of Section B, which basically said that BMW has looked at the tariffs and new-model introductions should offset the shortfall.

Basically, net-net, there's no effect. So BMW can be involved in this trade war according to Wall Street Journal and it's going to come out just fine.

It's got patient investors, it's got economists, it's got everything going for it, but my industry is a whole bunch of little one and two-person family businesses and none of us know how this really works.

It will affect us and we're being set up there with this 301 action right next to these guys. They know what they're doing, we don't.

So, in conclusion, I guess I'd really like to say that I don't think including 8543.88.9960 in the 301 action is in the interest of the United States.

I think it will do more economic harm for my industry than good, and I ask that you guys exclude it from this Tranche 3. Thank you.

MR. BISHOP: Thank you, Mr. Howard. Our next witness is Gary Philbin with Dollar Tree, Incorporated. Mr. Philbin, you have five minutes.

MR. PHILBIN: Good morning, my name is Gary Philbin and I'm the CEO of Dollar Tree.

I want to thank the Committee for this opportunity to appear before you to discuss the serious negative impact the proposed duties would have on our customers, company, and 175,000 associates.

For over 30 years, Dollar Tree has operated variety stores that sell all merchandise at the single-dollar price point. We also own

Family Dollar, a leading operator of discount variety stores selling low-cost needed goods.

Altogether, we operate nearly 15,000 stores in the U.S. and employ over 175,000 U.S. workers, placing us in the top 50 employers in the USA.

Dollar Tree and Family Dollar primarily serve the low and low middle income segments of the U.S. population, the most vulnerable of all consumers to price increases.

Over 60 percent of Family Dollar customers have annual household incomes of less than $40,000 and half of these customers earn $20,000 or less.

If the administration imposes 10 to 25 percent duties on the products we import from China, it will have a severe impact. The proposed duties would impact the cost of several thousand or around ten percent of the products we sell.

All of the impacted products sell for a dollar at Dollar Tree and the vast majority sell for $3 or less at Family Dollar. Among other things, we may be forced to discontinue offering thousands of impacted products, which may have the following consequences.

First, our stores will offer fewer products and we will most likely substitute other products of lower value, meaning the U.S. customer will suffer.

Second, this could result in slower growth for our companies. The uncertainty of these changes will impact our customers adversely and require us to review future investments in stores and supply chain.

We opened 603 stores last year and we have plans to open more this year. Our 4000 rural stores are often one of the best job opportunities in rural America. We hire over 6000 new retail associates nationwide every year.

The proposed duties put these new jobs and possibly existing jobs at risk. We also operate 23 distribution centers in the United States and our planning to open one new distribution center every 12 to 18 months.

Each distribution center will be at least 1,000,000 square feet at around 400 jobs and bring $100 million of investment, most often in rural America. If the duties are put into effect, we could need less growth and distribution capacity.

We strongly support U.S. jobs and U.S. manufacturing. We purchase approximately 60 percent of our Dollar Tree products and 75 percent of our Family Dollar products from U.S.-based vendors.

But many of the products we sell that we need to sell at our stores and that our customers depend on to make ends meet are simply not commercially available from any country other than China.

There are numerous reasons we can now obtain these products from U.S. sources. For example, many of our products are crafted or packaged by hand and have relatively high labor cost for a dollar price point.

Also, some parts require manufacturing capabilities that are not available in the U.S. such as certain types of injection plastic molding and dying techniques.

Sufficient production capacity does not exist in the United States at a price our customers can afford, and at the locations and quantities that will meet our distribution requirements.

We also cannot currently obtain the products we need from third-country suppliers. While we have begun working with our vendors to explore options for improving third-country production outside of China.

We believe it will take two to four years to improve those supply chains. In the meantime, our customers and U.S. workers will suffer.

Finally, imposing duties on our low-cost products will have no effect in eliminating China's unfair trade practices related to intellectual property and forced technology transfer.

China's Made in China 2025 program is part of the country's effort to move beyond the type of labor-intensive, low-cost manufacturing that our vendors currently perform in China.

Imposing duties on these prices will only accelerate the Chinese Government's efforts to move to higher value, higher-tech manufacturing, the opposite of what our country needs.

I respectfully urge you to reconsider the proposed additional duties on our products and we will provide a full list of the impacted tariff lines in our written comments. Thank you very much.

MR. BISHOP: Thank you, Mr. Philbin. Our next witness is David Scheer with ECM Industries LLC. Mr. Scheer, you have five minutes.

MR. SCHEER: Good morning, Chairman, and the Section 301 Committee. I am David Scheer, CEO of ECM Industries.

ECM is a small business with a long history of manufacturing and supplying electrical components and products for the commercial, residential, and industrial construction markets.

We are proud that every day thousands of people in businesses around the U.S. rely on ECM's products. We are Headquartered in Menomonee Falls, Wisconsin, and have a global presence with six locations across the U.S., Mexico, and China.

We operate three manufacturing plants in the U.S., one in the Milwaukee area, one outside of St. Louis, and one in Alexandria, Minnesota.

Our company is one of the world's pre-eminent suppliers of innovative and niche electrical products and systems and we are dedicated to providing our customers with innovative and labor-saving solutions for their most demanding electrical requirements.

On behalf of ECM's 350 employees, I thank you for the opportunity to appear before you today. ECM respectfully requests that the USTR remove 27 different items proposed on List 3 of product subject to additional retaliatory Section 307 tariffs.

These items range from products such as heat shrink to hand tools from cable ties to wire management accessories.

While ECM is supportive of the goals USTR and the administration have outlined in various reports detailing China's aggressive and discriminatory policies, today I would like to outline three reasons why these 27 HTS codes should be excluded from the list of proposed tariffs.

First, the tariff on these products would significantly harm ECM's small business. Many of these products are already subject to a duty.

The proposed additional duty on these products added to the duties already in place will cause irreparable harm to ECM. The proposed up to additional 25 percent duty applied to our products on List 3 will cost our company more than a half million dollars per year.

These additional unexpected costs for our small business are layered on top of the detrimental impacts from the 301 tariffs already imposed on our products on List 1 and 2 that are totaling over $3 million annually.

We are already running into difficulties guaranteeing supply on certain products and have already seen increased prices for ECM for those products we source in the U.S. that use China's components.

Overall, these 301 tariffs are crippling ECM. Additionally, ECM works in a highly price-sensitive market.

More than 95 percent of our customers, including distributors, manufacturers, and large retailers like Home Depot, Ace Hardware, and Walmart are based in the U.S. and use and sell our products for electrical construction maintenance, repair and remodel applications.

We are now between a rock and a hard

place. If we try and pass the full amount of these duties onto our customers, we run the risk of losing our contracts with major customers and with that, millions of dollars of sales and profits.

The alternative is not a good one and that means reducing our workforce in the U.S. in order to absorb the costs of these tariffs. We have been a healthy and growing business and have not laid anyone off in over five years. In fact, we've been hiring people.

I do not want to be in a position to tell 50 or 60 people they are losing their jobs as a result of these tariffs but I may have no choice.

Second, shifting to a non-Chinese source for these products is not a viable option at this time. We have explored the possibility of sourcing these products from other countries but uprooting our supply chain is extremely cost-prohibitive and impractical.

We have been working with our

suppliers in China for over 20 years and have invested millions of dollars in tooling and training. Many of our products are designed and packaged to meet unique specifications of our U.S.-based customers.

We believe that developing the necessary manufacturing capacity within America is technically and economically infeasible in the short term to meet our customers demand requirements.

Lastly, while we understand these tariffs are imposed under Section 307 of the Trade Act in response to China's retaliation to the Section 301 tariffs, the imposition of this additional 25 percent ad valorem duty on these 27 products will not be effective in eliminating China's predatory acts.

USTR Section 301 report found that various policies and practices of the Chinese Government are designed to promote Chinese companies as leaders in supplying certain advanced technologies around the world and to reduce imports of these technologies that Chinese industries rely upon.

ECM products have been on the market for many years and do not contain sensitive technology or intellectual property that is the target of China's practices.

In fact, ECM has been sourcing these products from China since the 1990s and has not experienced these challenges.

To the contrary, ECM has enjoyed a constructive relationships with its Chinese suppliers and has not encountered any of intellectual property theft, cyber theft, or other technology-related compilations that advanced technology industries have faced.

In sum, our importation of the 27 products from China is not linked to any purportedly unfair practices.

Imposing punitive tariffs on our imports would only harm our small business and the U.S. customers we serve without advancing the stated objectives of the Section 301 proceeding.

I thank you for your consideration, I welcome any questions the Committee may have.

MR. BISHOP: Thank you, Mr. Scheer. Our next witness is Mo Siegel with Ice Air, LLC. Mr. Siegel, you have five minutes.

MR. SIEGEL: Good morning and thank you for allowing me to testify today.

I'm Mo Siegel, President and Co-CEO of Ice Air, the small privately-owned heating, ventilating and air conditioning manufacturer based in Mount Vernon, New York.

The proposed 10 or 25 percent ad valorem duty on certain HVAC products will have the severely harmful effect on our competitiveness, our growth, and our ability to maintain and create U.S.-based jobs.

Ice Air imports Air Conditioning equipment designed for our customers' specific requirements from our manufacturing facilities in China. This equipment appears to be general included in the product list identified by USTR, specifically Sections 8415.10.30, 10.60, and

82.01.

The imposition of a 10 percent duty on this equipment and more so with a 25 percent duty would seriously harm Ice Air's business, the interest of our customers, our employees and their families, and everyone who depends on Ice Air for U.S. employment.

At the same time, it would not appear that these specific tariffs would have the intended impact on China's predatory trade policies. Therefore, Ice Air is requesting that these products be excluded from the proposed tariff list.

Ice Air is a small business Headquartered in Mount Vernon, formed in 2003 by my partner and myself, with us and one additional employee.

We now employ 45 people in Mount Vernon and our downstream distributors and servicers and installers employ conservatively at least 200 to 250 employees, whose jobs are directly dependent on our provision of our equipment.

We're an American success story that until now has relied on the benefit of open markets. These tariffs will be financially disastrous to Ice Air and to everybody that depends on us.

Our business focuses on designing and manufacturing niche HVAC terminal equipment, mainly for high-rise multi-family projects, the lodging industry, and educational dormitory-type facilities.

Our products are specialized for the markets that we service and we've spent 15 years building an efficient and cost-effective supply chain in China that allows us to compete against the much larger, multinational companies that dominate the North American HVAC market.

This supply chain ensures that we can continue to provide high-quality, cost-effective, energy-efficient, and innovative products to our customer base.

We have searched for alternative

suppliers of our equipment but have concluded that there are currently no commercially or technically viable substitutes for our current supply chain.

Just as an aside, we've looked for suppliers in Thailand, in Canada, in Mexico, in Israel and other countries and would be gladly open to anybody that could be commercially viable as a supplier but have not been able to do so.

In the specialized markets we service, it's important to note that all of our competitors, U.S.-based or outside the U.S., were sourcing the finished goods or components from China.

As well, additionally, many of these competitors are importing China-based parts and components into their factories in Mexico and China and thereby evading any proposed tariffs and fabricating finished goods in those two locations.

One additional point is that HVAC manufacturing at the level we're engaged in is not any type of cutting-edge technology that has been identified on China's Made in China 2025 report or emphasized by the Chinese Government for further promotion.

In terms of intellectual property, Ice Air has gone to great lengths to protect our IP and technology by closely vetting our supplier base, dealing mainly with small or closely-held businesses in China and having a vigorous IP protection policy.

We are a key supplier of HVAC equipment to the affordable housing industry and they rely on us to provide competitively-priced goods and equipments for their projects.

Almost all of our contracts, supply contracts, are non-recourse long-term agreements that live for the life of a new construction project or major retrofit.

We have no ability to increase prices once we've signed the contract and, therefore, as one of the predecessors said, we're between a rock and a hard place if, indeed, we have to pay additional tariffs on goods we've already contracted to deliver.

We do not have the ability to pass through any of these increased costs, including new tariffs.

They'll not only severely affect our profitability but also likely our ability to continue to do business, grow our company, and employ our current and future personnel in the United States.

We therefore respectfully request that the proposed 10 or 25 percent tariffs on the listed HVAC equipment under the Sections I mentioned be withdrawn so that American companies continue to grow and prosper and we can employ more American workers here in the U.S.

I'll be glad to answer any further questions you have and I thank you again for hearing my testimony today.

Thanks.

MR. BISHOP: Thank you, Mr. Siegel. Our final witness on this panel is Nathan Walker with Goodman Global. Mr. Walker, you have five minutes.

MR. WALKER: Mr. Chairman and Members of the Committee, I'm Nathan Walker, Senior Vice President of Goodman Manufacturing Company, a Texas-based U.S. manufacturer of HVAC equipment since 1975.

I am here again today to discuss the reasons why USTR should remove certain components that Goodman uses in the production of heating, ventilation and air conditioning equipment from the third list of products proposed by the USTR for additional tariffs.

The components Goodman imports that are impacted by this proposed list includes certain permanent split capacitor motors and electronically-commutated motors, transformers, membranes, printed circuit Board assemblies, base valves and reversing valves.

The top of my written testimony contains the specific HTSUS subheadings at issue, which Goodman discusses more fully in his written comments.

At this point, you've already heard our story twice, one for List 1 and once for List 2, however, for those new to the Panel, Goodman is one of the largest HVAC manufacturers in the United States.

In 2012, Daikin Industries, which is one of the largest HVAC manufacturers in the world purchased Goodman.

Since that time, Daikin Industries and Goodman have constructed a factory outside of Houston, Texas, known as the Daikin Texas Technology Park, or DTTP, at an investment cost of approximately $500 million.

It's not an ordinary plant, it is the third largest manufacturing plant in the United States. To put its size in perspective, the roof covers the equivalent of 74 football fields. We anticipate having 7000 skilled American workers at the DTTP by 2020.

Included within the DTTP is the North American Research and Development Center, which has increased the number of engineers and technical professionals working at Goodman by 2.5 times the number of American workers we had employed prior to Daikin's acquisition of Goodman.

Goodman understands the philosophy of the administration is to have short term pain for U.S. companies for a greater long-term success. However, this is feasible only when all of the competitors are located in the United States and can share equally in the burden.

Because many of Goodman's U.S. competitors have moved production of some products sold in the U.S. market to other countries such as Mexico, they will not be subject to the same tariffs on the components in question, and therefore, will not share in the same short-term pain as Goodman.

The competitors that are produced in Mexico are also not subject to tariffs on the finished goods. This, in essence, rewards companies that have invested outside the U.S. and punishes companies like Goodman that have invested heavily in the U.S. production.

It puts Goodman at a strategic and competitive disadvantage vis-a-vis its competitors that move production into Mexico. Moreover, the production of these components have moved to China because they are mature technologies.

Therefore, for many of the components in question, Goodman does not know of any U.S. or third-country suppliers capable of supplying us.

Goodman is confident we know the supply chain both domestically and globally well enough for the components we use in our products to state that there's not a domestic source capable of producing AC motors, electrical transformers, electronic touch panels, PCBs, for Goodman's room air conditioners and basin-reversing valves.

For example, Goodman uses several million motors, several million transformers, several hundred thousand touch control panels, and several million base valves per year.

If a domestic or third-country source were to invest in these technologies, we believe it would take two to five years to come on board with appropriate capacity to meet Goodman's high-volume requirements.

In Goodman's post-Hearing comments for List 2, we went into significant detail concerning the length of time necessary to qualify it as a supplier, assuming that a supplier exists outside of China that is willing to invest in the production of the component in question.

Anytime Goodman modifies components within a finished product, we must reevaluate the product's performance via extensive engineering analysis testing, documentation review, and simulations.

Goodman is then required to submit extensive information and data to the Department of Energy and the Environmental Protection Agency.

For example, Goodman is required to comply with 10 CFR 429 for certification, compliance, and enforcement for consumer products and commercial and industrial equipment.

In addition, any modified products must meet applicable safety standards and codes, assuming that Goodman could identify a supplier with enough capacity to supply these components.

It could take two to five years to change supplier and get the relevant Agency approvals.

In our written comments, Goodman will once again submit the business confidential details concerning the length of time it takes to qualify a new component for use in a Goodman HVAC product.

As stated previously, Goodman just began production at the DTTP last year. It is our goal to move as much production as possible to the new facility, but that takes time.

Devoting a considerable amount of effort to qualify new suppliers will hamper our ability to produce new products and technology in the United States.

Again, this additional work to qualify the suppliers is something our U.S. competitors that moved production outside the United States will not be required to do.

Finally, imposing a 25 percent tariff as opposed to a 10 percent tariff would only exacerbate the overall situation and make Goodman products less competitive vis-a-vis its competitors that moved production outside the United States.

Based on the foregoing, Goodman urges the USTR to exclude the components in question from additional tariffs. Thank you and I'll be glad to answer any questions you may have.

MR. BISHOP: Thank you, Mr. Walker. Mr. Chairman, that concluded direct testimony from this Panel.

CHAIR TSAO: We'll begin questions in about a minute.

MR. JOHNSON: Yes, my question is for

Mr. Archibald, William T. Burnett and Company. As I understand your testimony, the fire resistant rayon is just one kind of rayon that is imported under this HS code.

Is that correct?

MR. ARCHIBALD: That's correct, yes.

MR. JOHNSON: And what share of that class does fire-resistant rayon account for?

MR. ARCHIBALD: Well, if we talk about an annual NEFR of about 20,000 tons, we would need to look at what the overall import is of rayon generally and that would be the fraction of it.

MR. JOHNSON: So, I don't know that bigger number off the top of my head and you don't either?

MR. ARCHIBALD: I don't but I'd be happy to supply it in a follow-up.

MR. JOHNSON: Thanks. Your domestic competitors, are they importing from China as well?

MR. ARCHIBALD: Yes, they are.

Milican is on the list I believe to testify on Thursday. They are a competitor that's similarly situated.

MR. JOHNSON: And do you have foreign competitors that export the stuffing, for lack of a better word, than just the simple rayon product?

So they compete with you directly rather than supply you with the fire-resistant rayon?

MR. ARCHIBALD: Yes, and it also affects the mattress market generally because we're supplying, for example, to Seeley, just to pick one name out.

But we in the United States are facing imports of mattresses from all other parts of the world so it creates a problem there.

MR. JOHNSON: And are there Chinese suppliers of your product or a competing product to you? So, rather than supplying the fire-resistant rayon, they compete with you in sales to mattress-makers?

MR. ARCHIBALD: Yes, it's a problem that China is bringing mattresses in.

MR. JOHNSON: All right, thanks. If these tariffs were to be imposed, how much do you think that your cost of production would be increased by, total cost?

MR. ARCHIBALD: A very substantial percentage. For competitive reasons, I'd like to submit that if I could in a private communication.

MR. JOHNSON: And as far as making the fire-resistant rayon, is it an involved process to change over from just a pure rayon to a fire-resistant rayon?

MR. ARCHIBALD: It's almost impossible. It's been looked at but the problem is the FR rayon is infused as the raw material which is, essentially, a wood pulp material that's being made into the rayon.

The wood pulp can either go into cellophane or into rayon and so it's in essentially that slurry-type state, or liquid-type state when it's being manufactured.

And the further problem is that basically, it's all out of China. As I mentioned, there are very few other places, nowhere near enough to satisfy the demand. We used to get some from Germany, a company Kelheim, but they're not making it anymore.

MR. JOHNSON: I believe that answers all my questions, thank you very much, sir.

MR. ARCHIBALD: Thank you.

MS. PETTIS: Ms. Eads, if tariffs are to be imposed on safety headgear, would your company or other domestic companies be able to supply the domestic demand for these products?

MS. EADS: I would say yes because some of the manufacturers that are manufacturing in the United States are quite large and I believe there's capacity there.

CHAIR TSAO: Excuse me, ma'am, I have a follow-up question. You mentioned earlier that the imported safety head gears are not up to U.S. regulation or they're inferior products.

Are safety gears regulated by a State or a Federal Agency?

MS. EADS: Well, basically, it's the American National Standards Institute with the ANC standards and so headgear or hard hats particularly is Z89, ANSI Z89, and there is no enforcement body in the U.S. Government that watches to ensure that products meet the standard.

So, it's all compliance based on the manufacturers who are making the product and so imports, because we have our own in house lab, we've tested many imports including products coming from China and often times, they do not pass testing.

Now, as you know, they're out of the reach of litigation, of U.S. litigation, so if their product causes an injury to someone, it would be the person who imports the product that is liable.

And often times, those importers are not someone who test product here in the United

States or has anything but the assurances from the imported manufacturer saying that they meet the Z89 standard and just from testing in our lab, I can tell you that there are products today in the marketplace that are being sold today that do not meet the standards.

MR. MULLIS: I have a question for Mr. Howard and the Coil Wholesalers. Thank you for your testimony and I noticed in your written submission that you claim that ten percent of the atomized coils make up the ten percent of revenue from vape shops.

Do you have an estimate on the percentage of the finished product that these consist of or make up?

MR. HOWARD: I don't understand the question, I'm sorry.

MR. MULLIS: So, the finished product, the e-cigarettes, how much of that product is the cost attributed to atomized coils? How much of that cost is not e-cigarettes?

MR. HOWARD: I'm speaking specifically

to the vape device in this picture and so when you buy that, it comes with a couple of starter coils so to speak.

MR. MULLIS: And what does it cost? So when you buy the device, how much does that cost?

MR. HOWARD: Let me try and describe some numbers and see if that answers your question. A device, as shown in this picture, could cost at retail about $85. A five-pack or three-pack of these coils at retail could cost $12 to $18.

MR. MULLIS: For three to five of them?

MR. HOWARD: For three to five of those, yes.

MR. MULLIS: And how long do they last? I know it's dependent on usage but on average?

MR. HOWARD: The general estimate is an average consumer in the USA will go through two packs of coils per month, a pack of coils consisting of three, four, maybe five coils per pack.

MR. MULLIS: That's all my questions, thank you.

MR. HOWARD: Thank you.

MS. SMITH: Good morning, my question is for Mr. Philbin at the Dollar Tree.

You said that you would provide a list of HTS codes but what I'd like to ask is that if you could, for each code, identify whether the product could be sourced for the United States or another country other than China?

And my second question is if the proposed tariffs go into effect, who would bear most of the additional duties, a Chinese supplier, the Dollar Tree, the consumer?

MR. PHILBIN: We will provide in written testimony the HTS codes affected, but for instance, we sell batteries at Dollar Tree, they are carbon zinc. I'm not sure there's a carbon zinc battery factory in the United States.

And our ability find capacity outside

of China is limited both for the reasons that we need to find folks that have the capacity, the ability to make the same kind of quality, and to invest in a supply chain in a country outside of China.

Those are some of the hurdles we'll be faced with on a myriad of items as we take a look at the items affected by the tariff.

In our case for the customer, to me it's very simple. Our customers make choices every day, both at Dollar Tree and Family Dollar. We need to find the solutions for them on these products which we've tried to do every day with the items that we import and source domestically.

When we're faced with a cost increase, often times at Dollar Tree we have to find a different kind of item or we have to change the spec for it. At Family Dollar, often times our customer does not have that extra dollar to spend on an item and they go without the purchase.

Our own research and third parties, Nielson, shows that this low-income customer is three times more price-sensitive than any other customer in the United States.

They are the most vulnerable customers we serve and it's often the only location near them that can provide all the items that we provide in both banners, Family Dollar and Dollar Tree.

So, it will be the customer that's impacted first and foremost.

MS. SMITH: Thank you.

MR. CONCEICAO: Mr. Scheer, in your submission you listed about 27 different product lines that you wanted to see removed from the proposed list.

Do you source any of those products from countries other than China?

MR. SCHEER: Most of those are sourced from China for some of the reasons already mentioned, the capacity, the fact that we've been working with suppliers there for more than 20 years.

We do have an Office in Shanghai. We

employ nearly 20 Chinese people who are full-time employees for us and they're engineers, they help us with compliance issues with factories, they host our U.S.-based customers who actually have to go in and audit the factories.

Because many of the customers we deal with, the big-box chains, have to certify your factories and make sure they're in compliance with their own ESG rules in human trafficking and so on and so forth.

The other thing I would say is we've developed these suppliers over a number of years because mostly what we saw are electrical products. And we're working with current so almost everything we saw has to be UL-listed.

We pay for that cost and the UL inspectors go into these factories and so we have a team of people that have worked with these suppliers to bring them up to the right manufacturing standards to be compliant with UL.

So I mentioned we have the people over in China but we do source from Taiwan, we do source from India, we source from Vietnam, we source some things from Indonesia, but the vast majority of what we sell is sourced from China.

The vast majority of things that we source is sourced from China really for the reasons that we've been working with these factories for so many years and many of them are captive to us.

I can cite a number of factories where 70 or 80 percent of their production is really dedicated to our requirements so they're integrated into our entire company.

And I mentioned we have three plants in the U.S. so we manufacture a lot of our products in the U.S. but the things that we found that China is better at in terms of their capabilities are sourced from China.

So, it would be nearly impossible for us, and I couldn't even put a number on the amount of investment it would take to replicate the tooling cost, the compliance cost, the UL cost, to set that up in another facility for the amount of products that we're sourcing from China for the customers that I mentioned.

MR. CONCEICAO: Okay, thank you very much, and one follow-up.

In looking at the list, I was wondering how much of those products that you source are finished goods versus components that will be further assembled once they're imported into the United States?

MR. SCHEER: I would say on List 3, the vast majority of these products are finished goods now and we actually do the packaging and the labeling.

The entire supply chain is based in China and there were other products on List 1 or 2 that are components but that's not the subject of this testimony.

MR. CONCEICAO: Thank you very much.

MS. HOLMAN: Good morning, my questions are for Mr. Siegel, thank you for your testimony.

Are any of the finished air

conditioning products produced in the United States? And could Ice Air source from these suppliers?

MR. SIEGEL: We assemble small-run batches of products in Mount Vernon, New York, for ones that are not technically or commercially viable to manufacture because of lot size or replacing obsolete equipment.

We have looked for sourcing in the United States.

Prior to Ice Air's formation, I ran a family business that employed 200 -- a unionized manufacturing facility in New York, and frankly, after the impact of 9/11 on the construction industry in New York and some other economic factors and downturns, we found that economically unviable for a small-sized company to manufacture here.

The state of the industry is that most of our competitors are owned by multinationals, whether they manufacture in the United States or assemble components in Mexico and Canada.

So as a small manufacturer, we found it really difficult and next to impossible to meet the economic realities of manufacturing in the U.S.

And we have been unsuccessful in terms of trying to go out to competitors because they have a vested interest in not selling us product at a competitive price.

So, the short answer is, no, we have intensively tried to do that and also, other than use Thailand, Israel, Mexico, Canada with little to no success, even at the component level, much less the assembled, finished goods level.

MS. HOLMAN: So basically, you see no real solution looking at either manufacturing in the U.S. or looking for alternative non-Chinese sources overseas?

MR. SIEGEL: We spent 15 years intimately familiar with this process and 15 years building a really viable supply chain, as I think has everybody else here that has done it in China, working mostly with small, closely-held businesses because our experience with bigger state-supported business has been very negative.

So, we have not been able to do it viably. The economics of selling particularly into the affordable housing industry is such that you need to scale it.

Mr. Walker, I admire Goodman for investing half a billion dollars into manufacturing in the U.S., but that is really the scale that you have to be at to successfully manufacture in the U.S. now.

And we are such a fractional enterprise compared to almost all our competitors, actually, that we find everybody we compete with sources finished goods in China, certainly sources the bulk of their components in China now, and it just has not been economically viable, not for want of trying.

As I said, I ran a 200-person manufacturing company and it's a little heartbreaking to shut that down after 30 years of successfully -- we supplied President Trump's first project, the Grand Hyatt in New York with fan coil units. That was my father.

So we're pretty intimately familiar with all the ins and outs of trying to do this as a small business. And my short answer would be, no, it has not proven economically viable for us to manufacture here.

MS. HOLMAN: Thank you, Mr. Siegel.

MS. HOWE: My question is for Mr. Walker. In your testimony you said China is the only supplier of the technologies in these HTS codes.

If Goodman were able to identify a domestic or third-party source willing to invest in these technologies, who would wind up absorbing the cost?

MR. WALKER: Basically everyone. The capacity doesn't exist outside of China for these codes. There are some in Mexico but the capacity is already at 100 percent because the Mexican factories have not invested in capacity in the last decade or so.

What has really happened to that is if you think about the U.S. market size, our air conditioners and products as such measure in the millions and it's a fairly large market. China's measures in the tens of millions and over $100 million.

And so these are basic components, motors, valves, that are mature technologies that followed the volume to China and so where the cost-effectiveness really comes is on the volume that the Chinese domestic market is able to provide.

And so that doesn't exist elsewhere in the world and so if you look at if we were -- assuming someone wants to invest in the capacity not knowing how long it would last, which we believe is doubtful, the cost increase that would come with it would be born both by the consumer and by Goodman.

Which would further, actually, suppress the market size, sorry, and I think what you would see is the low-income consumers suffering the most because they would then not be able to afford some of the air conditioning replacement products they would then elect to repair, and keep a less efficient product going for longer.

And they lose on efficiency and they lose on out-of-pocket costs.

MS. HOWE: Thank you.

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

CHAIR TSAO: Great, we'll take a short lunch break. Let's be ready to start the Hearing at 12:45 p.m. Okay, we're in recess.

(Whereupon, the above-entitled matter went off the record at 12:08 p.m. and resumed at 12:45 p.m.)

CHAIR GRIMBALL: Good afternoon. So, we have a few new additions. So, I'd like to just start and everyone go around and introduce yourselves and indicate which agency you come from. We can start with DHS.

MR. CONCEICAO: Good afternoon. My

name is Evan Conceicao with U.S. Customs and Border Protection.

MR. HARDMAN: Hi, everyone. My name is Ben Hardman. I'm with ITA, International Trade Administration.

MS. HOWE: I'm Julia Howe with the U.S. Trade Representative's Office.

MR. MCGUIRE: Hi, Tim McGuire with Foreign Agricultural Service in the U.S. Department of Agriculture.

MS. PETTIS: Maureen Pettis, Department of Labor.

MS. SMITH: Tanya Smith, SBA.

CHAIR GRIMBALL: And I'm Megan Grimball from USTR. We're ready to begin.

MR. BISHOP: Madam Chairman, our first witness on this panel is Colin Angle with iRobot. Mr. Angle, you have five minutes.

MR. ANGLE: Thank you. Good afternoon. My name is Colin Angle and I'm the Chairman, CEO, and Founder of iRobot Corporation. On behalf of iRobot, our shareholders, and our 675 U.S.

employees, thank you for the opportunity to speak today.

iRobot is an American success story. I founded the company in my living room in 1990, with two MIT colleagues, and since that day, we have been at the forefront of bringing practical robots out of laboratories and helping people.

iRobot developed the PackBot Robot with support of DARPA and later, the U.S. Army's Future Combat Systems Program. The PackBot was the first ground robot deployed by U.S. forces in conflict and performed critical tasks, such as IED removal, threat identification, and forward reconnaissance.

iRobot provided more than 6,000 of these robots, the majority of which went on to perform missions side-by-side with our war fighters in Afghanistan and Iraq.

Over the past 28 years, iRobot's engineers and scientists have been at the forefront of robotics science. We inspired the first micro-rovers used by NASA. We've provided robots for hospitals, helping doctors diagnose patients remotely.

We deployed robots to Ground Zero on September 11, 2001, to help keep first responders safe during rescue and recovery efforts.

In addition to the robots we have designed and developed for the U.S. military, we disrupted an entire industry through our development of the Roomba robotic floor vacuum.

It is a product on which the proposed Section 301 tariffs will have effect and this product has been the fuel for iRobot's innovation engine.

iRobot has produced more than 500 U.S. patents and we have invested more than $740 million in research and development over the past ten years.

iRobot has over 675 employees in the United States, who perform the vast majority of all design, research, and development that go into our award-winning products.

The artificial intelligence that

enables iRobot to deliver uncompromised value to consumers is created by engineers in the United States.

This work creates additional employment in the U.S., as our subcontractors and suppliers work to provide critical subassembly design and software.

We use contract manufacturers in China for assembly and supply of many components, due to the lower cost and logistical efficiencies. Currently, U.S.-sourced components represent between 27 and 32 percent of the product bill-of-material costs.

iRobot is the largest exclusively robotics company in the United States, and we are American. Every competitor in the robotic vacuum cleaner business is owned internationally. iRobot alone is American.

Our headquarters are here, our intellectual property is developed here and owned here, and we have not created offshore entities to avoid taxes or shelter profits.

We have sold over 20 million Roomba products, and yet we are just at the beginning of providing homes with practical robot technologies.

The robot industry is nascent. We should be looking for ways to ensure that robotics is an industry in which the U.S. continues to lead the world.

The United States is iRobot's largest market, representing the majority of our sales. Imposing these tariffs, either at the ten or 25 percent rate, will bring disproportionate harm to iRobot and to U.S. consumers.

We are aligned with the goals outlined by Secretary Lighthizer and in two cases, iRobot has seen firsthand how Chinese theft of intellectual property has been detrimental to our economy. In each case, we have seen the Chinese government provide affirmative assistance to those stealing our intellectual property.

In the last year, iRobot initiated a Section 337 proceeding at the International Trade

Commission against 11 companies, including three Chinese manufacturers, for infringing iRobot's patents.

In June of this year, Administrative Law Judge Pinder found two of our patents both valid and infringed, and has recommended a limited exclusion order be approved.

In 2016 and 2017, we cooperated with the U.S. Attorney in the Southern District of New York in the indictment of three Chinese citizens, who, through cyberhacks, sought to steal confidential technology and robot designs.

As a result of our 337 action, we entered into license agreements with several companies, allowing for the legal use of our patents.

Leaving HTS 8508.11 on the tariff list may discourage others from entering into licensing and/or settlement agreements with iRobot.

Additionally, the Made in China 2025 initiative is focused on industrial robots, those used for manufacturing of other products. iRobot is not engaged in the development or sale of this type of robot.

iRobot will not be able to relocate our manufacturing and supply chain in the short or medium-term. As a result of these tariffs, we would need to pass increased costs on to our customers.

Higher prices will result in fewer Roomba vacuums being sold, and this would have a severe negative impact on this fledgling business, potentially stifling our ability to innovate and impeding growth of an industry in which America can and must lead the world.

These tariffs will undermine iRobot's ability to maintain American leadership in practical robots, an industry that is poised to play a significant role in our country's future economy.

This tariff will aid our foreign competitors. We ask that our vacuum products be excluded from the list of products subject to the

Section 301 tariffs. Thank you.

MR. BISHOP: Thank you, Mr. Angle. Our next witness is David Baer, with Element Electronics. Mr. Baer, you have five minutes.

MR. BAER: My name is David Baer and I'm the General Counsel of Element Electronics. Without hitting my neighbor here, Sage, I'd like to share with you a simple chart that details Element's current situation. This chart is also included in the materials I have provided today.

Proposed 301 duties on Chinese TVs, zero percent. Proposed 301 duties on TVs assembled in Mexico, zero percent. Proposed 301 duties on TVs produced in America, ten or 25 percent.

As I understand, the goal of this 301 investigation is to force China to stop its unfair trade practices. The proposed 301 duties applicable to TV production will not do that. In fact, they'll do the opposite.

The proposed duties would allow duty-free imports of TVs produced in China, impose crippling tariffs on parts necessary for the production of TVs in the United States, and as a result, drive Element Electronics, the only company mass-producing TVs in America, to close its production facility and source products overseas.

Quite frankly, I can't find any way to interpret what the administration is proposing other than it's a mistake or unintended result and will promptly be fixed through this hearing process, because the alternative is that the government has targeted Element's factory for closure, and that makes no sense at all.

As this Committee knows from my earlier testimony and our written submissions, Element is the sole remaining U.S. mass-producer of LCD televisions.

The television industry highlights why America needs to renegotiate its trade deals. Our workers in South Carolina compete against low-priced imports from China and Mexico, compounded by tariff inversions and flawed trade rules.

The result is that U.S. tariff policy strongly incentivizes production in China and Mexico, to the expense of U.S. production.

As I testified in the May 15th 301 hearing, the administration had the opportunity to take a significant and important step in leveling the playing field for our workers in South Carolina and domestic TV production in general.

The first 301 list included finished LCD TVs, subjecting them to a 25 percent duty, and excluded the LCD screen parts that are required to assemble TVs in America.

This would have solved the current disadvantage American TV production faces, at least with respect to imports from China, and given American workers a chance to compete.

However, the administration chose not impose that 25 percent duty on TVs, thus leaving American production in the same severely disadvantaged position we've faced for several years.

The current list of products that is the subject of this hearing continues to exclude finished TVs, however, this list now imposes duties on an additional ten or 25 percent on the LCD screens and motherboards that Element must import to assemble TVs in America.

Let me be very clear, there is no other place for us to obtain our parts than China. All of our parts originate there. In fact, even TVs that are assembled and imported in Mexico contain products that originate in China and are assembled in Mexico only to achieve duty-free entrance into the U.S. under NAFTA.

Annually, the U.S. market for TVs is in the tens of millions. There is only one mass-producer of TVs in the world that does it here in America. It's Element.

So the only TV company in the world that is the subject of these proposed 301 duties is the only company producing TVs in America. Think about that.

TVs imported from China, not subject to the 301 duty. TVs assembled in Mexico, not subject to the 301 duty. TVs assembled in America, ten or 25 percent duty.

This has to be a mistake or an unintended result that will be promptly fixed through this process. If this 301 list is implemented as proposed, Element's total duty cost on LCD screens will be either 14.5 or 29.5 percent.

All this against every other competitor paying either zero percent or at a max, 3.9 percent. Obviously, we can't compete under these circumstances.

Our supply chain for LCD screens ranges between 90 and 120 days. Therefore, at the announcement of these proposed duties on July 10th, we were forced to immediately redirect our supply chain to avoid the possibility that those parts coming in this fall would be subject to the 301 duties.

Of course, we still need to deliver

our products to our customers, so instead of assembling those televisions in our South Carolina facility with a U.S. workforce, we were forced to move our production overseas to assemble those same TVs there. Quite a sad day.

As a result, our South Carolina facility is operating only on inventory that was already within the supply chain. This inventory will be exhausted sometime in October, at which point we'll begin the wind-down of that assembly operation in South Carolina and be forced to import TVs from China and Mexico, following the path the U.S. Government has laid out.

So again, China-produced TVs, no 301 duty, 3.9 percent total duty. Mexico-assembled TVs, no 301 duty, no total duty. U.S.-assembled TVs, ten or 25 percent 301 duty, equaling a 14.5 to 29.5 percent total duty.

I can't believe the U.S. government is intentionally out to shut down our South Carolina facility, that makes no sense. So the only logical explanation is that the proposed 301 duties must be a mistake or unintended result that the administration did not realize.

For the sake of all of our workers in South Carolina and all of their families, I hope this administration recognizes this mistake and fixes it quickly. Thank you.

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

MS. CHANDLER: Thank you very much for the opportunity to testify again. I'm Sage Chandler, I'm the Vice President for International Trade at the Consumer Technology Association.

Our Association consists of over 2,200 companies, 80 percent of which are small businesses, startups, entrepreneurs, as defined by the Small Business Administration.

CTA remains categorically opposed to the use of tariffs. The use of tariffs as a remedy to the shortcomings in Chinese national policy and practice is more likely to cause adverse short and long-term benefits than it is to change China's practices.

If enacted, new tariffs impacting $200 billion in trade will continue the destructive ripple effect that the administration started with its first round of tariffs, not only through the entire consumer technology industry, but also through the U.S. economy.

CTA has identified 380 codes from this list which would cause significant harm to our industry and our member companies, as well as consumers.

Of concern are items that allow Americans to access the internet, such as servers, desktop computers, printed circuit assemblies, and connected devices.

Connected devices cover a vast array of tech products, including e-readers, smart watches, speakers, and fitness devices, as well as the components and the infrastructure products that make them work, such as modems and gateways.

Products on this list disproportionately impact small companies, many of which manufacture and assemble in the United States, and startup companies that design and engineer the U.S. intellectual property.

If these tariffs are implemented, the losers are not IP infringers in China, they are the underdogs in the United States. The startups, like Brilliant. The small town manufacturers and assemblers, like Kimber Kable out of Utah. The investors and inventors who created devices that our parents knew, like Cedar Electronics.

The experts in specialty production and sales, like JLab Audio, who thrive, despite competition from the Fortune 500. And visionaries, like Fitbit, who changed the concept of health as we will know it to come.

A study commissioned by the CTA found that 25 percent tariffs on printed circuit board assemblies and connected devices will cause price increases of up to six percent, impacting even products made entirely within the United States.

Those price increases are expected to reduce consumer purchasing by 12 percent. Price shock and drop in demand have the potential to devastate our industry.

Overall, the impact of a 25 percent tariff on connected devices alone is expected to cost American shoppers an extra $3.2 billion annually. That clearly contradicts USTR's stated aim in the product selection process of avoiding goods commonly purchased by American consumers.

Moving forward, CTA shares the concerns that others have also expressed on the administration's decision-making process. We urge USTR and the administration to give clear guidelines on what criteria qualify for exemption and provide clear reasoning for the decisions that are made.

At a time when the United States is reaching to achieve greater digital integration, advance telecommunications technology, and increase internet access for rural populations, tariffs on technology are counterproductive.

Tariffs are taxes on Americans, not foreign governments. They undermine the competitiveness of American companies and threaten the spirit of entrepreneurship that the United States has for decades inspired by the greatness of our freedoms of choice. Thank you.

MR. BISHOP: Thank you, Ms. Chandler. Our next witness is Aaron Emigh of Brilliant Home Technology, Incorporated. Mr. Emigh, you have five minutes.

MR. EMIGH: Thank you --

MR. BISHOP: Push your microphone, please.

MR. EMIGH: Thank you. I'm Aaron Emigh, the Founder and CEO of Brilliant. Brilliant is a technology startup that employs 30 people, all of whom are based in the United States. We're funded with $21 million in investment from venture investors. And as a small startup, we're generally focused on building our business, but now we find that geopolitical considerations are suddenly posing a dramatic challenge for technology startups.

We're engaged in the creation and sale of smart home technology. Our first product, the Brilliant Control, gives complete control over home functions from the walls of the house by replacing standard light switches with devices that provide touch and voice control over smart devices throughout your house, as well as smart lighting and video intercom.

The Brilliant Control is a new type of device and the intellectual property, which includes electronics, mechanical design, and software, is created entirely by Brilliant in the United States.

The team that designed Brilliant has received well over 100 patents and the Brilliant Control has won numerous awards, including the CES Innovation Award and the CTA TechHome Mark of Excellence.

Brilliant is launching its first products in just two weeks, so the announcement of the tariffs has come just as we're bringing our product to market.

The Brilliant Control is believed to fall under HTS 8537.10.9160. The Brilliant Control is designed in the U.S., all the software that runs on it is written in the United States, but it's manufactured in China and, therefore, is potentially subject to as much as 25 percent tariffs on the finished goods, in addition to 2.7 percent at baseline tariffs, for a total tariff of 27.7 percent.

Brilliant has carefully calibrated our pricing to our understanding of the market, as well as to our costs. Our margins are quite low for a consumer electronics product because we're a startup, we don't yet have the advantage of economies of scale.

We've engaged in extensive negotiations with partners in our sales channels with our listed prices, but the sudden introduction of a 25 or ten percent tariff would render our business impractical at those prices.

Therefore, Brilliant will be forced to both raise our prices and reduce our gross margins, which will have an adverse impact on our negotiated business relationships, our sales, and our business.

The Brilliant Control is a new class of product, no comparable product is made in the U.S. As a consumer product, fit and finish are critical to achieve the required cosmetics.

China uniquely combines a capability for high-quality manufacturing with a cost structure that enables us to meet the required consumer price points.

Furthermore, the supply chain for this type of device is based in China and manufacturing elsewhere would require us to procure parts in China and ship them elsewhere, which would incur additional costs and production delays.

Even if it was practical to manufacture elsewhere, it would cost on the order of a million dollars and take many months to relocate manufacturing outside China. These costs and timelines are not practical for Brilliant, as a small startup company with modest resources.

Furthermore, relocating to the United States is doubly impractical, because it would incur a similar level of tariffs on many of the components used in Brilliant, which are obtainable only from China.

Therefore, there is no immediate practical alternative to manufacturing in China. Brilliant is unable to move our supply chain and, therefore, must raise our prices in response to the proposed tariffs.

This is illustrative of the threat posed by the proposed tariffs to the business of small technology companies, such as Brilliant.

Brilliant's IP is created entirely within the United States. Even our manufacturer is based in the United States, although the factory is in China.

Essentially, the proposed tariffs

amount to a punitive tax on selling U.S. technology manufactured by a U.S. company to the domestic market.

No comparable products are made in the U.S. We therefore request that HTS 8537.10.9160 be removed from the tariff list.

Venture-funded technology startup companies, such as Brilliant, have the potential to grow to be major contributors to the U.S. economy. Google, Facebook, and Amazon were all technology startups not long ago.

Therefore, the proposed tariffs pose a longer term threat to the overall U.S. economy, because they disproportionately affect startup companies, and may affect the viability of some of these companies, which would otherwise grow to be major contributors to the economy.

I'm here representing not only Brilliant, but a coalition called Startups for Sensible Trade, which is composed of venture-funded hardware startups that are concerned about tariffs.

We believe that, due to the importance of technology startups to the U.S. economy and the disproportionate impact of tariffs on them, small businesses should be exempted from these tariffs.

I hope the representative for the SBA in particular will be able to represent the concerns of small businesses in this process. Thank you for your attention.

MR. BISHOP: Thank you, Mr. Emigh. Our next witness is Cheryl Green with Bak USA Technologies Corporation. Ms. Green, you have five minutes.

MS. GREEN: Good afternoon, ladies and gentlemen. My name is Cheryl Green. I'm In-House Counsel for Bak USA.

Bak USA is one of the only original equipment manufacturers producing computers at scale in the United States, located in Buffalo, New York.

Bak USA currently designs, builds, and sells two computers, a two-in-one laptop primarily used in education and a rugged tablet PC.

When the company was founded in 2015, Bak USA committed to relocalizing American manufacturing and in the process, creating meaningful careers in technology in America's left-behind neighborhoods, those that were most vulnerable to the forces of automation and off-shoring that have so dramatically changed the landscape of the U.S. economy.

In 2016, Bak USA became an OEM to Microsoft, who markets and sells our devices through its stores across North America throughout the education season.

As an OEM, our engineers and industrial designers collaborate with our customers and technology industry leaders to design products that meet the needs of the market. Then we work with our original design manufacturers to produce the components needed to build our computers. Unfortunately, the ODM space is dominated by China, leaving Bak USA no choice but to do business with China.

To understand the scope of the problem we're dealing with, you really do have to look back at the history.

Since entering the World Trade Organization and the enactment of NAFTA, trade between China and the United States has had a dramatic negative impact on U.S. manufacturing jobs.

China's entry into the World Trade Organization was supposed to bring it into compliance with enforceable rules that required China to open its markets to imports from the United States and other nations, by reducing tariffs and addressing non-tariff barriers to trade.

But this flow of U.S. exports to China never occurred because of China's currency manipulation, as well as their distorting practices, including extensive subsidies, legal and illegal barriers to imports, dumping, and suppression of wages and labor rights.

Growth in the U.S. goods trade deficit with China between 2001 and 2015 eliminated or displaced 3.4 million U.S. jobs, of which 2.4 million of those were in manufacturing alone.

And within manufacturing, rapidly growing imports of computers and electronic parts have accounted for 56 percent of the $240.1 billion increase in the U.S. goods trade deficit with China, and eliminated over 1.2 million jobs in the United States.

Furthermore, global trade in advanced technology products, historically considered a source of comparative advantage for United States manufacturers, has now been dominated with China, and included within this broad category of high-end technology products are the more advanced elements of the computers and electronics parts industries.

In fact, my colleagues here today have mentioned the fact that PCBs in particular are an item that are on the trade tariff list currently that will have a direct negative impact on technology in the United States. And that is the single largest factor in cost to Bak USA's computers.

One critical component, again, this PCB, in terms of statistics, has shrunk substantially. Currently, Asia accounts for 84 percent of the production of PCBs.

And by the way, you can't even get a PCB in the United States today. Zenith Corporation was the last one to produce those, and some of you on the panel are old enough to know who Zenith is.

They went out of business in the early 1990s. That's because the EPA regulations forced them out of business, because the amount of water that is used in the PCB industry is very damaging to the environment.

To put this in further perspective, in 2015, when Bak USA approached the ODMs in China, they did not want to cooperate with us and they worked very, very hard to try to dissuade our company from shipping the component parts from

China to create American jobs and manufacture to the high-quality American standards.

Instead, they proposed that we simply buy fully assembled devices directly, since it is both possible and less costly to produce our computers overseas.

Dell, HP, Microsoft, and Apple, along with nearly every other OEM in the world, pay ODMs to fully assemble their products in Asia. However, we eventually prevailed and we were finally able to obtain the computer kits for assembly in the United States.

Our investments made in the Buffalo, New York facility are substantial. We currently employ 115 people. Our facility spans more than 50,000 square feet, and our assembly and manufacturing equipment investment exceeds $10 million.

We have invented a method of building our computers, using a combination of human talent and advanced collaborative robotics, that is now pending a U.S. patent, and it is our vision to bring this modern micro-manufacturing model to dozens of cities throughout the United States.

In the short span of four years, we have proven that it is possible to produce computers in the U.S. and that a company can be competitive doing so.

However, despite the growth and traction of our young company, we are now faced with an overwhelming uncertainty from the latest round of tariffs.

We are committed --

CHAIR GRIMBALL: Excuse me, Ms. Green.

MS. GREEN: -- to using local suppliers.

CHAIR GRIMBALL: Your time has expired, so please conclude.

MS. GREEN: I will, ma'am.

CHAIR GRIMBALL: Thank you.

MS. GREEN: We know that these tariffs were framed to help American companies compete, and in theory, this should work. However, it doesn't work, because the global supply chain does not allow for this.

Apple computers bumped us from our shipping of our entire component parts for a period of four days recently, because they were introducing a new product to the United States.

Normally, we would not have a tariff for the logistics, because we import all of our products in one vessel, altogether as a kit. In this instance, we were charged $48,000 for a tariff as a result of Apple bumping our shipping and we could not get our computers in time for delivery.

We hope that this panel will respectfully look at exempting PCBs and the other items on the list that we have identified in our testimony today for exemption. Thank you.

MR. BISHOP: Thank you, Ms. Green. Our next witness is Jason Oxman with the Electronic Transactions Association. Mr. Oxman, you have five minutes.

MR. OXMAN: Thank you and good

afternoon. My name is Jason Oxman. I'm the CEO of the Electronic Transactions Association.

ETA is a 30-year-old organization, headquartered here in Washington, that represents more than 500 payments technology companies that enable eight million merchants in the United States to accept electronic payments from their customers.

We appeared before the Interagency Section 301 Committee on May 16th and opposed the inclusion of one specific HTS item, cash registers and point-of-sale terminals, on List 1. Ultimately, this one HTS item was not included on the final List 1.

In testifying today, we appreciate the administration's important ongoing efforts to negotiate a trade solution that benefits American workers and our economy.

ETA members last year processed nearly $7 trillion in electronic payments on behalf of American merchants. More than 70 percent of the U.S. GDP is retail spending in the United States, and more than 70 percent of retail spending is done by consumers via electronic payments. So, our impact on the U.S. economy is significant.

We are here today to urge that twelve specific tariff headings be removed from List 3. The specific items all concern point-of-service products or parts necessary to the specific tariff heading that ultimately was excluded back in May.

We appreciate your hearing our concerns today and ultimately hope that you will remove these discrete items. As time is short, I won't list all twelve, but I ask that their numbers be included in the transcript record, as they are included in our request to testify and the printout of my testimony here, and will be detailed in our written comments.

Our opposition to increase tariffs on these discrete tariff lines is based on two principal arguments. First, we believe that these tariff lines would have no impact on China.

Second, we believe it would cause

disproportionate economic harm to U.S. businesses, specifically small and medium-sized enterprises.

Including these tariff lines on List 3 would have no impact on China. In 2016, 54.2 million payment card authorization terminals, sometimes referred to as point-of-sale terminals or POS terminals, were shipped worldwide. These are the terminals that we use to swipe or tap or insert or dip our cards or our phones to pay at the point of sale.

Of these 54.2 million POS terminals, only five million of them were shipped to the U.S. market. So, the U.S. globally represents less than ten percent of the worldwide market for POS terminals.

The Asia-Pacific region, significantly, is growing in its proportion of shipments. Last year, there was a 28 percent increase in units, to 31.7 million POS units in the Asia-Pacific region.

Again, this is compared to only five

million in the U.S. Similarly, growth in the Latin American and Caribbean market was faster than in the U.S. market.

So, Chinese manufacturers would recover to any tariffs by simply shipping to other regions of the world, which they are already doing today.

Approximately 95 to 100 percent of ETA member companies' POS terminals are manufactured in China, as are the point-of-service products and parts that ETA addresses today.

These products, of course, use U.S. intellectual property, but shifting manufacturing to the U.S. is simply not an option for four reasons.

First, the labor is not available. Second, there's a lack of secondary facilities and infrastructure to support this kind of manufacturing. Third, it would cost millions of dollars per manufacturing line.

And fourth, the certification process for POS terminals, products, and parts is significant and could not be completed in time before we run out of inventory.

Point of service is a small industry compared to the larger consumer electronics industry, for example. Our ability to influence Chinese decision makers is muted.

U.S. inventories currently will last between three and four months and a shift to a third-country market would take at least 12 to 18 months, leaving small businesses without the options they need.

Our second reason is that including these products and parts on List 3 and imposing an additional duty would have a disproportionate impact here in the U.S.

Our nation is in the midst of an upgrade of terminals, products, and parts to chip card capability to prevent fraud. Larger retailers have finished their work on those upgrades. Small businesses have not.

In fact, about 50 percent of the retailers in the U.S., about four and a half million merchant locations, have upgraded and the rest, about half, have not.

These are mostly small businesses that would not be able to sustain the 25 percent increase in prices. They would not be able to buy upgraded devices, products, and parts. We are concerned this would leave a significant security gap for small businesses.

In addition, parts of these items that enable repairs are done by U.S. workers in the U.S. POS terminals were already removed from List 1, it would make little sense to now make the parts necessary to repairing those devices so expensive that it's uneconomical to repair them here.

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

MR. BISHOP: Thank you, Mr. Oxman. Our final witness on this panel is Timothy Amos Schallich with eero, incorporated. Mr. Schallich, you have five minutes.

MR. SCHALLICH: Good afternoon. My name is Amos Schallich and I'm a co-founder and the Chief Technology Officer at eero, a company that I founded in 2014 with a couple of friends.

We've created an entirely new category of home networking, whole home wi-fi. eero was the first to develop this technology and remains an industry leader. From three guys in an apartment, eero now proudly employs 105 full-time people in the U.S., including 65 engineers.

Our products are imported into the United States under the eight-digit HTS subheading 8517.6200. I'm here today to implore that this subheading be removed from the Section 301 Tariff List.

eero makes routers that utilize mesh networking technology to resolve dead zones within the home. Our product allows you to watch Netflix, send work emails, surf the internet from every corner of your home. It is also simpler to use and, importantly, more secure than traditional home networking products.

eero's mesh technology improves upon traditional single wi-fi routers with our system of interconnected nodes, which act as wireless routers and range extenders and satellites throughout your home and extend your home wi-fi.

The first eero node connects directly to the modem and to the internet and then it and the rest wirelessly communicate with one another to extend the wi-fi signal throughout the home, creating a web of connectivity.

Why do we need mesh wi-fi networks? Our daily lives rely on our internet-connected devices, such as smartphones, laptops, baby monitors, home security systems, and thermostats.

If you're setting up a new doorbell or any of the smart products, such as what Aaron talked about, you need to have connectivity and have that connectivity be secure, and you need to have that on your walls in every room of the house.

The first -- beyond providing just the wi-fi network, eero also provides additional features on top of this, through our software. We provide parental controls and digital security, stopping hackers from accessing our personal information and our digital lives.

eero's nodes are constantly updated over the air with new features and security enhancements, so this allows us to respond very quickly to cybersecurity threats, to foreign agents or compromised routers.

We hear this more and more in the news, that routers and other home networking equipment and IoT devices are being compromised. And so we're working to really stay ahead of that and provide a new level of security for American consumers.

There are two primary components of an eero network: the electronic hardware and then the proprietary software. While both are entirely designed within the U.S., and although the hardware is an important conduit for the product, the innovation, the new functionality, and the intellectual property is all in our software.

eero's engineering team is a primarily software-focused team, although we do also have hardware engineers.

Mesh networks are enjoyed in our private homes today because of eero's product, and our U.S.-made software is the heart of our products and it provides the mobile applications, the cloud infrastructure, the mesh capabilities, and the device security.

It is not accessible to the Chinese manufacturer, whose sole role is to test and assemble the common, nonproprietary components of the router.

Imposing these tariffs on eero's products hurts U.S. consumers. And when I say eero's products, I mean the final product, made with U.S. ingenuity and over a quarter million engineering hours from U.S. engineers.

A tariff on the Chinese-manufactured, low-tech hardware unfairly hampers eero's ability to sell our overall system, because there is no commercially reasonable alternative source.

Additionally, a higher price point would dissuade American consumers from upgrading to the newer, smarter, and importantly, safer networking products. This incentivizes consumers to keep their old insecure router or purchase less expensive, less secure networking gear.

Finally, these tariffs give foreign tech giants the advantage to purchase the inexpensive low-tech components from China and sell their products to Americans at the detriment of eero.

These tariffs today do not accomplish the administration's goals, but instead give foreign competitors the advantage over us, the small U.S. originator of this technology.

eero fully understands the challenges of China's intellectual property practices and the administration's goals to change the Made in China 2025 policy. This is why we've remained software-focused and carefully protect our intellectual property.

The irony here is that it is the U.S.

tariff policy that fundamentally threatens our business, not China's IP practices and industrial policies.

Secure wi-fi networks with U.S. software is more important than ever. I therefore urge you not to impose these punitive tariffs on products covered under 8517.6200. Thank you for your attention and I am happy to respond to any questions you may have.

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

CHAIR GRIMBALL: Thank you for your testimony. We will start with questions in about one minute. Okay. We're ready.

MS. HOWE: My question's for Mr. Angle. You state that iRobot has direct experience with Chinese competitors infringing your patents, both in the United States and elsewhere. Did this have any impact on iRobot's competitiveness?

MR. ANGLE: Yes. We have seen our market share impacted by competitive entrance and are aggressively working to limit their entry into the U.S.

MS. HOWE: Also, has iRobot ever looked into shifting production outside of China?

MR. ANGLE: Absolutely. In fact, we recently completed a strategic sourcing exercise, to see where else on the planet we could manufacture. The results are very unencouraging.

In fact, were we to try to bring manufacturing of the Roomba to the U.S., we would see an increase in cost of over 57 percent, based on increased material costs and labor costs.

MS. HOWE: Were any of the third-country options more affordable?

MR. ANGLE: Yes, somewhat more affordable, but still a significant increase in cost. And right now, the consumer robot industry is at a stage right now where rapid growth over the next two years, the winners in this new emerging market are going to be determined. And so, even a ten percent increase in costs would significantly disadvantage iRobot.

MS. HOWE: Thank you.

MR. HARDMAN: Hi, my question is for Mr. Baer with Element. You mentioned two products or two components, the screens and the motherboards, that you said cannot be sourced outside of China.

I have kind of a similar question, where else did you look? And also do you mind, perhaps, providing some detail on why these are only provided in China and not outside?

MR. BAER: Sure. So, they can be sourced in China and we can import them here into the U.S., either through Mexico or through China, for either zero or 3.9 percent, which is the unfortunate part.

The part that we actually have to import, which is the LCD sub-panel, the sources that we have been able to work with are all in China.

There are only, I don't know off the top of my head, five or six panel fabrication facilities in the world and all of them are centric here to Asia. There's been an announcement that one's going to be moving here to the U.S., but by all public reports, that's five years out.

So, the infrastructure to create a panel fabrication facility to create the LCD panel assemblies that we have to import, for our supply chain are really only available in China.

If we did the final assembly in China or if we did the final assembly in Mexico, we would either pay 3.9 percent or zero percent and have no worries with the 301 duty. The problem is, we're trying to save an American factory and American jobs.

MR. HARDMAN: All right. One follow-up, what about the motherboard?

MR. BAER: The motherboard, again, our motherboards all come from China. There may be other locations, to be honest, I don't have a whole lot of detail on the motherboards, because the significant cost and significant problem is really the LCD panels.

The motherboards did appear on List 3 for the first time and so, we're asking that they be removed. But the big piece is the LCD panel.

MR. HARDMAN: Okay, thank you.

MR. BAER: Thank you.

CHAIR GRIMBALL: Mr. Baer, I have one follow-up question for you.

MR. BAER: Yes, ma'am.

CHAIR GRIMBALL: And I'm not sure if you know this off the top of your head, and if you don't, feel free to supplement following this hearing. But what is the value added of the U.S. content, as compared to Chinese source components?

MR. BAER: I don't know that --

CHAIR GRIMBALL: Okay.

MR. BAER: -- off the top of my head.

CHAIR GRIMBALL: Okay, I figured.

MR. BAER: I apologize. But we will for sure supplement --

CHAIR GRIMBALL: Please.

MR. BAER: -- in our written response.

CHAIR GRIMBALL: Okay, thank you.

MR. BAER: Thank you.

MS. SMITH: Good afternoon. My question is for Ms. Sage Chandler. Out of all the products which you have requested for removal, which products are the most difficult to source outside of China and why?

MS. CHANDLER: Well, we have 380 products identified and a great number of them, we have been told by our companies are difficult to source outside of China, or, as you've been hearing, the cost would be prohibitive on small businesses.

There are a couple of categories of product that will have a real huge impact. The more we look at it, the more we understand how big the impact is going to be on the consumer.

And that is sort of this ecosystem of the Internet of Things. We have many products on this list that are part of the way we access the internet, the way we work, the way we function.

So, over here, we've got a data center

and all those items on there, the circuit boards, the memory modules, transceivers, servers, gateways, routers, are subject to 25 percent under this list.

I could add also that the semiconductors that are used were on the last list. Motherboards, to your previous question, contains a lot of these elements, so they too would have a strong impact. Here in the middle, you have modems and other routers.

And then over here are the consumer devices. The Bluetooth connected devices, like speakers and wireless headsets and fitness trackers and home audio/video, whole home controls for either on the end of the table here.

So, what we see is the potential for pass-down. So, for all the U.S. data center manufacturers, or builders, there's tons of them around us, 25 percent, 25 percent, 25 percent, however many times they have to pay that.

They can't absorb it all, they'll pass some down to this middle guy. That middle guy is probably the ISP, or internet service provider. So, that ISP will pick up those pass-downs, but they also have to pay the 25 percent on the modems and the routers.

They can't take all of this plus that, so they'll pass it down. The ultimate loser here is the American consumer, because they will have to pay all this pass-down, plus an extra 25 percent on all of the items that they choose to buy.

This is for the folks in the back. Data center, ISP, or any connection here, modems, routers, consumer.

So, it's hard to pinpoint any particular item that is of real importance, because the ecosystem is so huge and there are multiple items.

And we have listed in our final, we'll have line item by line item with comments on them, so that will help illuminate a little more.

MS. SMITH: Okay, thank you. I just have one more follow-up. Of those that you listed, are there any that are specific to small businesses who --

MS. CHANDLER: Oh, yes.

MS. SMITH: -- will be impacted?

MS. CHANDLER: Yes. So, sort of the infrastructure is 8517.6200. That captures all these connected devices. It captures some companies that do what Brilliant does, I think, down at the end of the table here. Then we have the code that Aaron's under, also affects a number of these items.

And then there are the hardware manufacturers, assemblers in the U.S. If you took a TV and made it mini, you would see that there's a lot of pieces coming from other places, and something that's miniaturized and goes into a data center, it could be -- maybe they used TV, maybe they used who knows what.

So, tariffs are not just at that end point and it's not just once. The way that we're starting to see this whole picture is that it builds down the line and all those costs add up.

And the ultimate place that they get passed to, when there's nowhere else to pass it, it ends at the consumer.

MS. SMITH: Thank you very much.

MS. CHANDLER: Thank you.

MR. MCGUIRE: My question is for Mr. Emigh from Brilliant, two questions. The first concerns IP theft, with new and innovative products. Are you concerned about the potential for Chinese IP theft?

MR. EMIGH: The vast majority of the intellectual property in our product is in the software that's in that product.

So much as Amos was describing, the hardware is relatively straightforward, although it's not simple, and anybody who takes the device apart can easily see what's in it and could replicate that, if they wanted to.

However, the software is much more protected, because we don't provide source code to the Chinese factory. We only provide object code, which, again, anyone would be able to see if they just look in the memory of the device.

So there's no particular insight into the software, where the core intellectual property is, that exists in China.

Furthermore, the company that does the manufacturing is actually a U.S.-based company, which provides additional assurances that we're not that concerned about the theft aspect of it.

MR. MCGUIRE: Okay. The second question, as you've heard from the other questions, we're interested in knowing the cost and the time that might be involved if you were to move your production to another country.

MR. EMIGH: Yes. The unfortunate consequence of this particular tariff regime means that moving to the U.S. would not be an option, because we would then be subject to numerous tariffs on the components that are used in the device.

So, we would be talking about moving production to a third country, that is not the U.S. and is not China. We did an evaluation of where we would build the device, before we knew about the tariffs, and looked at a lot of different countries as possibilities.

China is unique for several reasons. First, the quality of construction that's available in China is extremely high. This is very important for consumer products, where fit and finish is very important.

And many of the low-cost countries, like Vietnam or Indonesia or places like that, we felt didn't have the capability of building products to that level of fit and finish.

We looked at some other countries, like India, that may be able to provide that quality of manufacturing, arguably. But they had other numerous problems, as far as the supply chain went.

Because the supply chain for all of these components is based in China, we would be procuring them in China and shipping them to India from China.

We would run into potential problems

and delays with Indian customs and there are a lot of vicissitudes as far as the infrastructure there goes.

And ultimately, it seemed like it would be introducing an unacceptable level of risk, which we can't afford to take as a young company, where we don't have global organization that's capable of going and straightening out complex supply chain problems. We have to work with people who are capable of doing it.

And there are some components, like the plastic molded pieces, that it didn't seem like there were good options outside of China. So, in our estimation, it was not practical to manufacture anywhere other than China.

MR. MCGUIRE: Thank you.

MR. CONCEICAO: Good afternoon. My question is for Ms. Green. First, does your company, does Bak USA source any of the products that you listed in your submission from countries other than China?

MS. GREEN: So, we do have a supply

chain specialist that actually works for the company and that's all that they do, is they look where they can source component parts from.

We -- the component parts that we can source from the United States, we do source from the United States. And I've identified the names of those companies in my testimony that's been submitted to the panel.

The other parts, we have looked to source at other countries. Taiwan, one, India, another. China, unfortunately, as you're hearing the rest of my panelists testify to, actually produces the highest quality.

And when it comes to the motherboards or the PCB, which you've heard a lot about today, which is a very, very expensive component part in all of the technology and many of the startups that you're hearing from, that industry is dominated by China, I mean, 84 percent, and they have the highest quality.

So, we have looked at -- there was a very small manufacturer that we looked at. But from a quality and a capacity standpoint, they could not provide what we needed.

And when we sourced them from that company, we found that 50 percent of the supply was defective. So, we can't source from a company that's going to provide defective component parts to us.

MR. CONCEICAO: Okay. And as a follow-up, in your estimation, and you may not have the numbers handy, but when it comes to finished computers, do you have an idea on what duty rate, what level of duty would need to be imposed to encourage production of finished computers in the United States, or countries other than China?

MS. GREEN: Yes. So, of course, we are the only company that we're aware of that produces to scale computers in the United States.

And what I do know is that, for every 2,000 computers that we would produce based on the existing Tariff Schedules 1, 2, and 3, 3 being the most significant one affecting our company, the cost is over $100,000 for every

2,000 devices.

The tariff to companies that are our competitors would have to be significant. It would have to be over 25 percent. And that is because the competitors, the large competitors that mass-produce millions of computers, will simply pass the cost off to the consumer here in the United States.

And so, you really have to look at, what is the consumer threshold tolerance level for what they will pay in order to move the manufacturing process back to the United States?

And the one thing I can tell the panel is, our rate, from a quality standpoint, exceeds that of every competitor that's out there. Even though we're a small startup company, we only have a six percent failure rate and the industry standard tends to be 15 percent.

So, there is real quality in building to the American standard that differentiates building our products in the United States versus building them overseas.

And we hope that the panel will really consider that as they look at all of the requests that are being made here, particularly with respect to the electronics industry.

MR. CONCEICAO: Thank you.

MS. PETTIS: Mr. Oxman, are any of the requested products available to be sourced outside of China? And have any Association members ever had any difficulties with IP theft and/or forced technology transfers with China?

MR. OXMAN: To your first question, Ms. Pettis, between 95 percent and 100 percent of the components sourced by our member companies come from China.

So, as I testified in May, the POS units themselves are manufactured in China and the parts and components that go into those devices or the accessories that attach to them are also manufactured in China. So, it's between 95 and 100 percent of our member companies' product.

To your second question, the

opportunities to source those products outside of China obviously have been sought by our member companies. And they, similar to the other panelists, have found those not feasible. And as a result, they closely guard their intellectual property.

POS devices, as the other panelists have testified as to their own devices, have two components to them. They have the hardware component and the software component.

The hardware component is what is manufactured and sourced in China. The software component and the intellectual property therein is American.

And it is added to those products once the manufactured products are transported to the United States. So, the software itself and the source code for that intellectual property is not provided to the Chinese partners and is, rather, added here in the U.S.

MS. PETTIS: Okay, thank you.

CHAIR GRIMBALL: This question is for

Mr. Schallich, am I pronouncing that correctly?

MR. SCHALLICH: Yes.

CHAIR GRIMBALL: Thank you. In your testimony, you mentioned problems faced by consumers with respect to hacking of their particular devices. Has eero faced or is eero aware of any IP theft related to the software technology that your company is producing?

MR. SCHALLICH: We are not. So, similarly to what Aaron said, our software, while some of it goes on the devices in the factory, though the source code is not available to the manufacturer, it is very reliant upon actually both our cloud infrastructure and our mobile clients.

CHAIR GRIMBALL: Okay.

MR. SCHALLICH: So, a lot of our stuff just never even lives on the device. It's very hard for us to charge for that separately. But think of the device as the hardware being dumb, in and of itself. You give it the software that gives it life, gives it the capabilities.

It's also, as certain vulnerabilities come up or are found in wi-fi standards or things like that, we're able to patch our devices on the neighborhood of -- and this is not just new ones, but this is every single device that has ever been sold by us -- in the neighborhood of 24 hours to one week, and update all of them.

And so that shipping new, it's kind of -- in our office, we do the testing, we make sure that the software's ready to go, and then we're able to deploy it to everyone with no consumer action.

So, able to very quickly react and get things down and make sure that we're fixing any type of vulnerability. Things that have come up or kind of made the news, was crack, there are other --- foreign agents have actually gained access to other routers, which we were not vulnerable to.

And those are all things that we kind of keep an eye on and make sure that we're doing our best to kind of move things forward in the industry.

And also try to better protect the devices on the home network that aren't even our own devices. So, the more we can do to prevent people from being able to access your smart cameras or other devices in your home or infect those, we do as much as we can there as well.

CHAIR GRIMBALL: And with respect to the hardware that I understand is manufactured in China, are the inputs for that hardware completely sourced from China, or do those inputs come from other countries in your supply chain?

MR. SCHALLICH: Most of them, I believe, are sourced from China. I would have to follow up with the manufacturing and sourcing team there and can address that in the comments.

CHAIR GRIMBALL: Okay, thank you. And a few of your other colleagues have touched on this point, but I'd like to ask you directly.

As a young startup company, what factors went into your company's decision to manufacture your particular product in China instead of another country?

MR. SCHALLICH: Sure. So, when we were first starting off, when it was actually still three people, before we had any capital, we were looking at other options.

We did a road trip down to San Luis Obispo and met with a firm called Gateworks there and tried using their boards. And then we did early prototyping at a firm in San Jose.

The places that we looked at within the U.S. were not going to be cost competitive and also weren't going to be able to build at the capacity that we needed them to.

So then when we were going and looking at foreign options, we looked at where had competitors gone? We like to model our product quality after Apple, and ended up today in the factory where they were building their line of now discontinued wi-fi products.

So, we gained some of that expertise that the line workers had in working and doing radio frequency testing for the products in there, as well as making sure they were able to build as high-quality of a product as possible.

CHAIR GRIMBALL: Thank you.

MR. BISHOP: We release this panel with our thanks and we invite the members of Panel 13 to come forward and be seated.

Madam Chair, our first witness on this Panel is Stephen Comstock with the American Petroleum Institute. Mr. Comstock, you have five minutes.

MR. COMSTOCK: Members of the Section 301 Committee, my name is Stephen Comstock and I'm a director at the American Petroleum Institute and manage the development of our association's trade policy.

With more than 600 members, API is the only national trade association representing all facets of the oil and natural gas industry.

The U.S. is leading the world in the production and refining of natural gas and oil, which is boosting our economy, keeping energy affordable for consumers and benefitting American workers. Unfortunately, the current trade policies being pursued by the administration run counter to enhancing our energy dominance throughout the world.

We understand the need to curb discriminatory trade practices with these broad additional Section 301 tariffs currently being considered would likely slow U.S. natural gas and oil production, threaten jobs in our industry and hurt consumers.

Our industry relies upon imports from China for many products listed under the additional proposed tariffs. As you will notice on the copies of my oral presentation in front of you, that I've listed products that our industry utilizes that will be impacted.

I would just like to highlight a couple of points on that list for the sake of time. First, with respect to the natural barium sulfate, and barium sulfate.

These are products used in fluids that are necessary when drilling. However, the U.S.

has only limited amounts of the barite needed for these products.

In 2017, the U.S. produced only 330,000 tons of this critical material, but it consumed almost seven times that amount in the same year. To make up the difference, the U.S. has to rely upon imports.

Approximately half the supply comes from China, at which in 2017 it accounted for about 42 percent of the global barite production.

With respect to the other component parts and products we understand that they could be, and are, domestically sourced. But it must be understood that there are established supply chains in our industry and quality control processes that have been setup with Chinese suppliers and is both time consuming and inefficient to reestablish those from scratch.

We also understand that an exclusion process is being considered whereby USTR would assess petitions from companies, to exclude imports from these proposed tariffs under certain circumstances.

Our general policy is that these assessments should be done up front, in consultation with impacted industries who are relied upon target products.

However, if USTR wishes to try and mitigate unintended impacts in this fashion, we would suggest a focus on making the process as transparent to industry as possible, based upon our experience in the Section 232 product exclusion process implemented by the department of Commerce.

Such transparency would allow petitioners to understand what is needed in order to make a successful claim and avoid impressions of arbitrary judgments. Further, a more transparent process could allow petitioners to provide additional facts or input into determinations that would otherwise seem rash or confusing.

I should also note another industry concern with these proposed tariffs in that the

Chinese government has proposed retaliatory tariffs that specifically target U.S. produced liquefied natural gas. China is currently the third largest importer of U.S. LNG and those export amounts of have been increasing to match China's rising demand for natural gas.

The U.S. is one of the world's main LNG suppliers, but other countries are capable of supplying China, including Australia, Qatar, Malaysia and Russia.

This trade dynamic suggests that additional tariffs by the Chinese on U.S. LNG will impact the Chinese markets for our products and hurt the U.S. more than it hurts China over the long term.

Naturally, incentivizing other LNG suppliers to fill this demand would impact the construction of domestic LNG projects reliant upon that market for secure long-term supply contracts. Lack of that outlet, for U.S. natural gas, could cascade down into domestic production.

This connection between the potential

loss of markets and impacts on domestic production provide a small example of how destructive trade wars can be on the parties involved.

We strongly believe that any Section 301 effort to address discriminatory and market distorting practices of our trade partners, should be undertaken only after a more consultative approach with industry, to understand impacts and policy objectives.

We also believe that engagement should be extended to trading allies for a more multilateral approach. We specifically urge the administration not to impose additional Section 301 tariffs on Chinese products used in the U.S. natural gas and oil industry.

And if that cannot be accomplished, to institute a transparent and efficient policy to review petitions for product exclusions from U.S. natural gas and oil companies, including oilfield equipment, manufacturers, services and supply companies.

Thank you for your consideration of our points and I welcome any questions that you may have.

MR. BISHOP: Thank you, Mr. Comstock. Our next witness is Wayne Joseph with New Flyer of America. Mr. Joseph, you have five minutes.

MR. JOSEPH: Good afternoon, Mr. Chairman and Members of the Section 301 Committee. Thank you for the opportunity to appear before you today.

My name is Wayne Joseph and I am the president of New Flyer of America headquartered in St. Cloud, Minnesota.

New Flyer is a U.S. subsidiary of NFI Group, the largest transit bus and motorcoach manufacturer and parts distributor in North America employing over 6,000 team members with 3,100 employed in the United States and continuing to grow.

New Flyer has expanded its operations across the U.S. In October 2017, New Flyer opened the first of its kind, Innovation Lab, the vehicle innovation center in Anniston, Alabama.

Dedicated to the advancement of bus and coach technology, including electric, autonomous and telematics technologies.

We've also invested approximately $28 million to establish a new parts fabrication facility in Shepherdsville, Kentucky and anticipate hiring over 550 employees.

As you can see, we continue to build on our over 85 year legacy of innovation, with over 50 of those years producing zero emission buses.

New Flyer agrees with the USTR and Section 301 Committee. The acts, policies and practices of the government of China burden and restrict U.S. Commerce.

We're encouraged by the administration's efforts to right the scales and put an end to China's actions that have distorted the market and fortified unfair trade practices.

Due to our knowledge of and experience with these unfair trade practices, I am here to support the inclusion of lithium-ion batteries, related to subcomponents such as individual or aggregated cells for medium and heavy-duty buses, on the list of products to which we urge the U.S. government to impose an additional duty. This product does not currently appear on the U.S. trade representatives proposed annex published in the federal register on July 17, 2018.

To ensure the effectiveness of the USTRs actions, we request Harmonized Tariff Schedule, Subheading 8507.60.0010, be included in the final tariff's list.

It is critical to underscore the fact that it is not New Flyer's intention to reach into areas in which lithium ion batteries are used for purposes of consumer electronics or uses other than medium and heavy-duty buses.

New Flyer manufacturers the Xcelsior CHARGE battery electric, heavy-duty transit bus for the U.S. public transit industry, containing batteries produced by XALT Energy, who manufactures battery cells and embodies them into battery modules and systems in Midland, Michigan.

The XALT batteries are the only batteries with U.S. made battery cells that currently meet the industry requirements for heavy-duty transit buses. Consequently, the loss of XALT, as a battery supplier, would disrupt our business or cause us to source from a supplier who imports cells from outside the United States.

New energy vehicles, such as electric buses we manufacturer, are included as one of the ten strategic advanced technology manufacturing industries for promotion and development described in the Chinese government, Made in China 2025 industrial policy.

Made in China 2025 leverages state resources to rework and generate prejudicial advantage on a global scale. This unparalleled state driven intrusion will continue to destabilize the market, causing artificially reduced prices and distort U.S. manufacturing and innovation of heavy-duty electric buses.

By the Chinese government's own

design, we cannot confirm many of the details of the subsidies. However, the prices charged by Chinese sponsored enterprises of heavy-duty buses in the U.S. demonstrate that these enterprises are not valuing the lithium ion battery cell properly.

To make matters worse, the majority of these U.S. consumers are paying for Chinese electric battery buses with federal funds. Not only are the U.S. businesses and consumers being affected, but the U.S. government is subsidizing the Chinese government via public transit authorities.

China's state sponsored growth in new energy vehicle sector has been detrimental to the U.S. heavy-duty bus industry. As a result, China's increased exports of lithium ion battery cells, New Flyer, and its downstream supplier, are being harmed.

As buses become more efficient, the electric vehicle markets continue to grow, a fair and level playing field must be maintained for

U.S. manufacturers to compete domestically and in a global market. Advanced battery manufacturing will continue --

CHAIR GRIMBALL: Excuse me, Mr. Joseph?

MR. JOSEPH: -- to address critical innovation --

CHAIR GRIMBALL: Mr. Joseph, please conclude. Your time has expired.

MR. JOSEPH: To increase pressure on China to amend its unfair trade practices and reduce or eliminate the adverse impact that imports are having on the U.S. transit industry, New Flyer requests lithium ion batteries' related subcomponents such as individual aggregate cells for medium and heavy-duty buses be included in the final draft list.

Producing a narrow scope of tariffs on products specifically targeting Made in China 2025 industry policy goals will best serve our national security interests and the interests of U.S. businesses and consumers. If left unaddressed, the U.S. risk losing a high-quality --

CHAIR GRIMBALL: Mr. Joseph, please conclude.

MR. JOSEPH: -- advanced manufacturing industry.

CHAIR GRIMBALL: Thank you.

MR. BISHOP: Thank you, Mr. Joseph. Our next witness is Mr. Jared Wessel with United Industries. Mr. Wessel, you have five minutes.

MR. WESSEL: Good afternoon, Madam Chair and Members of the Section 301 Subcommittee.

Randy Lewis, the president of the Global Consumers Group within United Industries Incorporated, has asked that I read the following testimony into the record.

United is a leading manufacturer of branded consumer products sold in retailers such as Home Depot, PetSmart, Dollar General and many others. Our portfolio consists of a number of recognized brands including Repel insect repellants, FURminator pet care and Rayovac batteries.

Our brands are generally positioned as a value offering to the consumer. Which means that we offer a high-quality product at an affordable price to the value conscious consumer.

As an initial matter, we don't believe that USTR should impose tariffs on the types of consumer products we manufacture.

The administration made it clear in its announcement of the first Section 301 tariff list that it was focusing on the Made in China 2025 program and excluding "goods commonly purchased by American consumers such as cellular telephones and televisions."

The products we make clearly fit into both categories as they are not a focus of Made in China 2025 and are a necessity goods commonly purchased by American consumers. By necessity goods, I mean that consumers would rather not buy these products but they are necessity purchases to help them, for example, protect themselves from ticks and mosquitos.

I think you would agree with me that the average consumer needs these products even more so than the latest telephone.

To illustrate my point even further, I would like to discuss three specific groups of products. I'll start with insect repellants, which are manufactured in our Chapin, Missouri facility by 400 U.S. employees.

Mosquitos and ticks are disease vectors which transmit diseases to people. In the words of the CDC, there is a growing public health problem of tick and mosquito borne illnesses in the United States.

There are many diseases, some even life threatening, that can be transmitted by ticks and mosquitos, such as lime disease, west Nile virus and the Zika, the Zika virus.

The Zika virus is particularly troubling as it can be spread from a pregnant woman to her fetus and has been linked to a serious birth defect of the brain called microcephaly.

With this background, I hope you see that not only are insect repellants a necessity product, but also that they are very important to our health and safety. This is why we firmly believe a tax that will increase the cost of insect repellant is not something we should be encouraging.

Especially as the CDC is encouraging consumers to take practical steps, such as using insect repellants, to prevent vector borne diseases.

One other point I wish to share, it is my understanding that pharmaceuticals were removed from the list of products subject to Section 301, and I suspect it was due to a similar health care justification. I think you will agree the same logic should apply to insect repellants.

Next, I'd like to talk about the impact tariffs will have on pet care products. The pet supply category includes commonly purchased products that are key for maintaining active, happy and healthy pets, such as treats, toys, training aides and many other types of care for your pet products.

According to the American Pet Association, nearly 70 percent of all U.S. households own a pet. Pets play a vital role in many people's lives and are often treated as family members.

In addition to the sheer joy pets bring to our lives, the medical community has found that pet ownership provides many health benefits. Companionship pets like cats and dogs have been shown to improve mood, decrease stress, ease pain, improve immunity, lower blood pressure and help young children develop.

It is hard to truly estimate the exact dollar impact that tariffs would have on our goods, but I believe the number would be minimally in the $150 to $200 million range.

I base that estimate by the fact that these tariffs will result in consumers paying $11 million for our products alone. This is a staggering burden to place on the common everyday of pet care products that are so instrumental to so many people's lives.

For these reasons, we suggest that USTR not apply Section 301 tariffs to pet products as well.

Lastly, I want to speak to you about batteries. Our RAYOVAC brand battery is a 110-year-old brand and the world's number one producer of hearing aid batteries.

We manufacture our batteries with production facilities in both Wisconsin and Illinois. We employ 850 Americans through the U.S. manufacturing of approximately $1 billion batteries per year.

Our U.S. production is focused on high value added products like hearing aid batteries. We supplement our U.S. production with imports from China. Things like battery chargers and manganese dioxide and nickel-metal hydride batteries.

These imported products are critical to our ability to compete as we need a full assortment to offer our customers. Without a full product line, we will lose our competitiveness and our sales revenue will ultimately decline.

A revenue decline would force us to reduce our investment into the business, eventually hurting our U.S. manufacturing locations and favoring non-U.S. producers. I hope you now see how a tax on a common everyday product like batteries hurts U.S. battery manufacturing. For these reasons, we suggest that USTR not apply Section 301 tariffs to battery products as well.

Finally, I want to thank you for allowing me to share these details and for your time today.

MR. BISHOP: Thank you, Mr. Wessel. Our next witness is John McCann with MEC Aerial Work Platforms. Mr. McCann, you have five minutes.

MR. MCCANN: What can I say in five minutes that can convince you to remove products, our products, from the proposed list of tariffs?

We manufacture scissor and boom lifts used in construction and maintenance. To lift people above the ground to do work.

U.S. market for these products is about $2.6 billion. Two of the biggest manufacturers are domestic, the third is in Canada.

We are a distant fourth with $350 million to almost $1 billion. The top three control 90 percent of the market.

Their sales are four to ten times ours. To compete, we manufacturer some of our products in China and Korea. The remainder of our equipment is manufactured at our plant in Kerman, California.

It is a town of 15,000 hardworking, mostly Hispanic folks, whose largest opportunity for work is farm labor. It's a community with chronic unemployment. Two hundred percent of the state and national level. Almost 40 percent of the people, 25 years or older, have less than a high school education.

Terms used to discuss tariffs and international trade say nothing about the lives of these men and women who get up every morning to go to work.

Tariffs will cause layoffs, lives will be devastated, the hope and optimism that comes from meaningful work will be gone. Many of our employees, for many of our employees, MEC is the best job they've ever had.

The terms we use don't tell us about a woman with a husband in prison who never had a full-time job. She started by attaching connectors to the ends of wire cable and rose to become the head of the wiring department.

She proudly tells me she's no longer on welfare, food stamps or medical and how grateful she is to be able to support her family.

Nor do we know about a young man who is one of five children raised in a family of drug abuse. He left at 14 and lived intermittently with friends and family.

With no skills or work experience we trained him to operate a fork lift. He rose to head a five-man team in product support. He now has his own apartment.

The terms we use don't tell us about a man with a prison record and gang activity. His job prospects are few.

We hired him to grind burs off of welded parts. He rose to be the paint department supervisor and is now a lead welder.

Stories of hardship and courage are common among many of the 135 employees who will be affected by the proposed tariffs on machines we import from China.

Just oppose those lives to the cold anodyne economic facts of our countries efforts to stop unfair trade practices and provide equal access to China's vast market.

First, some economic facts. Scissor and boom lifts from China are a mere $80 million of the $200 billion included in the proposed tariffs. That's a mere four one-hundredths of a percent. Compared to the size of a basketball, China imports are less than a grain of salt.

The scissor lifts, the U.S. scissor lift and boom market is $2.6 billion. Only $80 million of that comes from China. Which is just a bit more than three percent.

We don't have the capital it takes to replace production of our machines in China. As a result, without imports, we can't compete with the three leading manufacturers.

Without products from China, sales will fall. The downward spiral would reduce our production in Kerman.

Cost cutting and downsizing would result in layoffs. Fifteen workers in the first round. As we struggle to find the right mix of labor for production in Kerman, there will be more layoffs.

Let's talk briefly about these products. There's no technology in these products. Technology is --

CHAIR GRIMBALL: Mr. McCann --

MR. MCCANN: -- 15 years old.

CHAIR GRIMBALL: -- I have to ask you to conclude.

MR. MCCANN: In concluding let me say this. Here's where we are, we have machines from China that represent less than a grain of salt in a grand $200 billion scheme of tariffs. They play no part in your Committee's efforts to change China's unfair trade practices.

Tariffs on scissors and boom lifts will cause layoffs, good American jobs in a small rural community. As a result, workers who have those jobs will have little or no prospects for the future.

Please don't do this. The cost to our workers --

CHAIR GRIMBALL: Please conclude.

MR. MCCANN: -- in Kerman is far too high.

CHAIR GRIMBALL: Thank you.

MR. BISHOP: Thank you, Mr. McCann. Our next witness is Jason Rook with Tube & Solid Tire, Limited. Mr. Rook, you have five minutes.

MR. ROOK: Good afternoon. I'm the vice president of Tube & Solid Tire. We produce the K9 and Dobermann brands of specialty tires, which will be affected by the proposed tariffs under the categories of truck and bus, all-terrain vehicle, lawn and garden, trailer and solid industrial tires.

The reason we produce many of these tires in China is simple, and that's capacity. Right now, we cannot switch our production to a U.S. manufacturing partner because none are available with the capacity to provide these tires and the agility to support private branding.

Manufacturing of small bias plied tired has declined in the U.S. And the manufacturer of solid industrial tires in the U.S. is all but finished.

We currently have manufacturing

partners in South Korea, India, Poland and China. Because of previous countervailing and antidumping duties imposed on China going back to 2007, we've approached our current partners, and also new factories in Thailand, Sri Lanka and Turkey, to assume production of products that we build in China, but with no success.

The main reason is, once again, capacity. They simply can't take on more production until additional factories are built, with new facilities currently in the works.

The reason I mention this is to illustrate that we've taken steps to move away from China production in every area that we're able, but some specialty lines are not possible to move at this point. If the tariff goes into effect, we'll have no choice but to simply pass it along to the end user.

The tariff on all the goods that we produce in China will have an immediate effect on our customer base in the energy, mining, trucking and agriculture industries. These industries rely on us to provide high-quality, cost effective products to maintain their productivity while shoring up their bottom line.

The tariff will not eliminate Chinese products on the market, only drive up costs for the consumer. I've spent time in China touring industrial facilities, speaking with factory managers, and many Chinese factories are investing heavily in research and development to increase the quality of their products, to match the growing cost of production associated with their higher wages and stricter environment regulations.

This tariff, I believe, will only speed the development of higher quality Chinese goods as they rush to match quality to price. Closing the quality gap, that's the calling card for American made products.

Already shipping costs are increasing as cargo fleets reposition themselves for reduced China trade and increase trade from other nations. The problem is that the tariffs imposed previously have had no discernible effect on Chinese trade volume so shipping costs are increase but volume is not dropping.

With large shipping fleets, the time to reposition is measured in weeks and not days. So the after effects will be felt in this segment of the industry, regardless of the outcome of this tariff decision.

The bottom line is that the effects of this tariff will be felt by small businesses such as ours and by truck drivers and groundskeepers and home builders and American farmers. Because of this, we believe the tires specified should be exempted from further tariff for the foreseeable future.

Imposition of the additional tariff on these products is also inconsistent with the stated reason for imposing them. As a consequence of China's purported theft of U.S. intellectual property and the refusal of the Chinese government to control these activities.

The technology underling the

production of the tires we buy and sell from China is mature and is used in all major producing countries in the world. The Chinese are not infringing or abusing U.S. patents or processes in the manufacturer of the tires we purchase.

These products should not therefore be targeted for additional duties under the guides of intellectual property violations. Thank you, I appreciate your time.

MR. BISHOP: Thank you, Mr. Rook. Our next witness is Tim Miller with Lionshead Specialty Tire and Wheel. Mr. Miller, you have five minutes.

MR. MILLER: Thank you. My name is Tim Miller, I'm president of Lionshead Specialty Tire and Wheel. Our company appreciates the opportunity to testify before this U.S. Trade Representative Section 301 proceeding.

Lionshead offers the following testimony against the imposition of Section 301 tariffs, on specialty trailer ST aluminum wheels, steel wheels and radial tires from China.

Lionshead is a privately held and family owned business with headquarters in Goshen, Indian and five facilities across the United States.

Lionshead manufactures and sells trailer components, including tires and wheels for the RV, open and closed trailer, marine trailer and horse and livestock trailer industries.

Lionshead submits that the imposition of additional tariffs on Chinese specialty trailer, aluminum wheels, steel wheels and radial tires will not help the United States achieve its goal of eliminating Chinese policies and practices related to technology transfer. Moreover, imposition of these duties will cause disproportionate economic harm to U.S. interests, to the industries we serve and their customers.

Finally, it's important to consider that these products do not contain industrially significant technology, such as those related to the Made in China 2025 program.

The overwhelming majority of these products are not manufactured in the United States, instead these products are predominately made in China and have been for years.

Lionshead has been in the industry since 1993 and we've created long-lasting partnerships with the Chinese based factories through which we source our tires and wheels. These products are largely built in China with no readily available alternative providers elsewhere.

U.S. based tire or wheel manufacturers have abandoned the segment of the industry as they have chosen to invest their resources in other areas of the tire and wheel industries. Such as automotive or large over the road truck.

Focusing on each of the subject components, the largest ST steel wheel manufacturers are located in China. The primary domestic ST steel wheel manufacturer is a company called Dexstar, a single plant located in

Elkhart, Indiana.

Lionshead believes that Dexstar employs less than 100 people and represents less than five percent of the U.S. market. The U.S. market for these ST steel wheels represents tens of millions of pieces in annual demand.

Dexstar has one location with limited capacity. They do not have the scale or geographic reach to fulfill any significant proportion of the annual needs in the United States.

While there are other steel wheel manufacturing plants worldwide, few have the scale, equipment or capacity to build ST steel wheels. There are other manufacturers that are active in the global steel wheel market. However, their market focus is either large over the road semi-truck wheels or wheels used in Ag or other off-road applications.

The ST steel wheel market requires completely different wheel sizes, bolt configurations and required load ratings than either of these industries. Moreover, ST steel wheels are manufactured to a different SAE standard than other wheels.

The largest providers of ST aluminum wheels are also located in China. There are other aluminum wheel manufacturers outside of China, but they focus on other markets.

For example, Alcoa is a domestic provider of aluminum wheels they focus solely on the over the road truck wheels.

Maxion is another domestic provider but they only produce automotive wheels. Compared to these industries, the ST industry requires aluminum wheels that are smaller in size and with load rating that can be up to 250 percent of those required in automotive.

ST aluminum wheels, like ST steel wheels, are manufactured to a different SAE standard and are not interchangeable with wheels made for the automotive or truck market.

ST trailer tires are also predominately manufactured in China with the 15 largest manufacturers located there. As with ST wheels, ST tires are unique in size and load ratings compared to automotive, Ag or large over the road truck tires.

While there are many tire manufacturers in the world, there are no current options that provide our industry with the volumes needed. Goodyear does manufacturer a limited quantity of ST tires in the United States, but they are priced at a 50 to 60 percent premium compared to the ST tires manufactured in China.

Goodyear's ability to command such a significant premium indicates that its focus is on a different segment of the market than that serviced by Lionshead products. Indeed, there are few OEM manufacturers in the RV or trailer industries whose retail customers are willing to pay this much more to have Goodyear branded tires on their unit.

Due to the high-volume requirements of tires and wheels in the U.S. specialty trailer industry and the concentration of manufacturing of these components in China, placing a tariff on these products would disrupt existing supply chains in multiple industries, including the RV, marine and trailer industries.

The impact of the tariff would cause undue economic hardship to our company and to the industries we serve. Tires and wheels are one of the more expensive components in an RV or trailer and adding a 25 percent tariff would significantly impact the average American RV or trailer user.

Based on our 25 years of expertise in the North American specialty trailer industry, it is our professional opinion that U.S. manufacturing of our components represents less than two percent of the annual industry demand.

Since 2008, due to the successful growth of these industries, we've been able to add 110 jobs and invest over $30 million in capital expansion in our company. We have already seen a dramatic slowdown in the retail sales of RV and trailers, due to the higher retail prices associated with previously passed tariffs.

On this topic and the importance of the RV industry of the U.S. economy, we call your attention to the comments and the testimony of the RV Industry Association.

Without an exemption to the manufactured products that we distribute, costs will significantly increase in the future and additional demand will decrease. This will force us to dramatically reduce our workforce and forego future planned expansion.

For these reasons, Lionshead requests that ST aluminum wheels, ST steel wheels and ST tires be excluded from the currently proposed Section 301 tariffs. Thank you.

MR. BISHOP: Thank you, Mr. Miller. Our final witness on this pair, on this Panel, is Derek Zhang of Transamerica Tire Company, Limited. Mr. Zhang, you have five minutes.

MR. ZHANG: Thank you. My name is

Derek and I am the president of Transamerica Tire Corporation, Limited. Thank you for the opportunity to be here today.

Transamerica is a U.S. importer and a distributor of specialty trailer tires, passenger car, radial tires, also known as PCR tires, and truck and bus tires. We market and sell private brand tires and over a complete product line for different applications.

We seek the removal of special trailer tires, PCR tires and truck and bus tires from the proposed list of the products subject to the Section 301 tariff.

First, the manufacture of these tire products do not involve the type of cutting edge, advanced or leap frog technologies with which Section 301 is concerned. I can tell you that in over nine years experience, neither we nor our customers have been forced by any entity in China to share technology from joint ventures or otherwise limit competition.

In light of this, we respectfully urge

the Committee to strongly consider the economic harm that will result in the U.S. should the tariffs be imposed on these tires at either ten percent or 25 percent level.

Whether it is a lake goer towing a speed boat or the outdoors man pulling a camper, specialty trailer tires are required as they are built to tow heavy loads and have better durability than standard tires.

However, there is insufficient production in the U.S. and globally to supply current U.S. demand for specialty trailer tires. We believe China currently produces almost 95 percent of the supply of specialty trailer tires.

U.S. tire manufacturers, themselves, import a large volume of specialty trailer tires from China because they have not focused the production on these types of tires. Globally, there are no countries outside of Southeast Asia that produce specialty trailer tires in significant quantities.

Moreover, outside of China, there are

only one or two factories in Southeast Asia that produce specialty trailer tires. And those factories produce very small quantities which are not sufficient to meet the U.S. demand that is currently met by Chinese production.

As you can see, there are very limited alternative sources of supply for specialty trailer tires. U.S. manufacturers and suppliers will necessarily continue to source these tires from China and are expected to pass the increased costs, onto U.S. Consumers, who will ultimately bear the brunt of the cost increases. Like specialty trailer tires, there's also limited production of passenger car, or PCR tires, in the U.S. and in third countries.

U.S. producers do not currently manufacture sufficient quantity to supply U.S. demand for PRC tires. In additional, PCR tires manufactured in China are also subject to a 23 percent duty.

The imposition of additional duties on PCR tires from China would further exacerbate the cost of these tires at either ten percent or 25 percent tariff, would cause disproportionate harm to U.S. businesses and consumers.

Given the little prospect for U.S. suppliers to source from other countries, U.S. businesses will necessarily continue to source from China and will likely pass the cost increases onto U.S. consumers.

I expect that if the proposed tariffs become effective in conjunction with the high antidumping duty on PCR tires, immeasurable ripple effects would result throughout the U.S. economy.

The same situation exists for the production and supply of truck and bus tires. Truck and bus tires are produced in Europe and other Southeast Asian countries.

However, there is very limited production in those regions and insufficient production to meet global demand. The European union does not produce enough truck and bus tires to meet its own demand and therefore imports a substantial volume.

The EU currently imposes antidumping duties on truck and bus tires from China and therefore imports a significant volume from other southeast Asian countries to meet their demand. Thus, the capacity of the Southeast Asian Country, I mean, producers outside of China, is very constrained and the supply is tight.

Under these circumstances, the Southeast Asian producers outside of China do not have the capacity to replace the volume of Chinese production of truck and bus tires, demanded by the U.S.

Given the limited availability of supply in certain countries, U.S. tire producers, suppliers and retailers will continue to rely on Chinese imports if the tariffs are imposed on these products, again, I expect the U.S. businesses will ultimately pass the cost increases onto U.S. consumers as they cannot absorb the added costs.

In each scenario --

CHAIR GRIMBALL: Mr. Zhang, please conclude.

MR. ZHANG: Okay. Only China has sufficient production to serve as a reliable source for the constrained global supply of specialty trailer tires, truck and bus tires and PCR tires.

The imposition of ten or 25 percent tariff on these tires, will only serve to burden downstream industries, U.S. manufacturers. We rely on Chinese imports and ultimately U.S. consumers for these reasons that we --

CHAIR GRIMBALL: Please conclude. Thank you.

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

CHAIR GRIMBALL: Thank you. All right, one moment please. Thank you for your patience.

MR. HARDMAN: Good afternoon, Mr. Comstock. Can I ask you a question about the natural barium sulfate?

You mentioned a statistic about how much the U.S. supplied and how much came from overseas. Do you remind kind of repeating that and then how much supplied, of the U.S. supplied does your industry use up?

MR. COMSTOCK: So, the statistics we had, I can provide you some additional information. I think the Department of Interior has done some studies on this information and I'm happy to pass that on to you to fill this out a little bit more.

But based upon our understanding in 2017, the U.S. produced around 330,000 tons of the barite, of those used in the barium sulfate. Mostly I think that came from mines in the west, in Nevada.

And I think that there is also limited production in some other places. Though I think mines are being reviewed and new sources are being reviewed as we speak.

But right now, China is the main

producer of this critical mineral. And I think they have around half of the worldwide production. Plus, large supplies in country, reserves in country, of the mineral as well.

MR. HARDMAN: Thank you.

MR. COMSTOCK: We'll supply that additional information to the Panel.

MR. MCGUIRE: My question is for Mr. Joseph. So, you mentioned that you work with a single U.S. based supplier for lithium battery components for heavy transit bus manufacture. So, in your estimation, is there sufficient domestic production capacity to fulfill the needs of the U.S. transit bus manufacturing industry in the face of imposition of tariffs in the category?

MR. JOSEPH: Currently XALT can supply our needs. Whether they can supply the rest of the industry, I think they do have additional capacity but I can't speak to how much more they can increase their production. We can get that information for you.

MR. MCGUIRE: Yes, thank you. And as a follow-up, sort of related, if they have some sort of timeline in terms of how long it would take to ramp up production in that way, that would be helpful.

MR. JOSEPH: Okay.

MS. SMITH: Good afternoon. My question is for Jared Wessel. Are third country suppliers for pet home and guard products that you import for China, and if so, can United Industries ship to supply chains to other countries?

MR. WESSEL: Yes, let me, it will vary by product so let me provide you a more detailed answer in my September 6th submission.

But let me just offer a couple of observations. Obviously change in supply chains would cause increases in cost.

Because of the way the industry works, any kind of tariff or cost is magnified. So for example, a 25 percent tariff applied at the border is often seen in a more than 25 percent increase on the consumer price because it's applied at the border and then you have retail mark-ups, distributor mark-ups et cetera.

So as the base increases and you have percentages going on top of that base, you get more than a 25 percent increase to the consumer.

And I think the point that I wanted to leave you with today is that these are what we call necessity products. You know, in essence the demand is inelastic.

So, when you get a, you know, if you were to win the lottery you would not run out and buy more bug spray. At the same time, when you, as the price increases you often tend to eat that. The consumer tends to eat that cost.

And our consumers are generally middle class to lower middle class consumers who make less than $75,000. So, it's going to be money out of their pockets.

But, demand is not perfectly inelastic. So, let me just use my insect repellant for example.

If you were to hit the product with 25 percent, or otherwise increase the cost, it's going to cause some Americans not to be able to afford the product. And I would respectfully submit to this Committee that I don't think it's worth one single pregnant women getting Zika virus because she could not afford her insect repellant.

I don't think the iota of additional negotiating leverage, that might get Ambassador Lighthizer to address some of these problems that he identified in the investigation report. I respectfully submit, I don't think that is in any way justified. Thank you.

CHAIR GRIMBALL: Just a quick follow-up Mr. Wessel and Mr. McCann.

MR. BISHOP: Can you pull your mic a little closer, Madam Chair?

CHAIR GRIMBALL: Oh, thanks. Sorry. Mr. Wessel and Mr. McCann, I noticed that in your testimony that you gave today that you did not specifically mention specific HTS lines. I don't know if that information was included in your summary or your, your summary requests to appear. But if it was not, I just want to imply that you should include that in a follow-up.

MR. MCCANN: Thank you. It was not in part of my oral testimony, it is in the follow-up.

MR. WESSEL: Yes, I can say we can certainly, again, we have a number of different products and a number of different codes, and we'll include that in our September 6th submission. Thank you.

MR. SECOR: My question is for Mr. McCann. Are there alternative suppliers, either domestically or from third countries, for the platforms or parts that you currently import from China?

MR. MCCANN: There are alternative suppliers. We explored them in great detail before seeking capacity with our manufacturer in China and Korea. They are the source of the best capabilities in these machines.

Europe does not have that capability except from our competitors. There is some portion of the products that come in here, come from competitors based in Europe.

MS. PETTIS: Just a question for Jason Rook. And just to clarify. Your testimony states that the specialty tires TST imports from China are, for the most part, not available either domestically or from third countries. And are there exceptions to the statement? I don't know, where can they come from?

MR. ROOK: The reason I mentioned it was for the most part, there are still, in the small bias ply tire arena, there are still two factories, I believe, producing in the United States. But they do not produce private branded labels for smaller companies, they are direct manufacturers for the company that owns those factories.

What was the second part of your question again?

MS. PETTIS: I just wanted to know ---

was just say the exceptions to the statement so I think you've --

MR. ROOK: Right.

MS. PETTIS: Yes.

MR. ROOK: And so, American production is very small.

MS. PETTIS: Yes.

MR. ROOK: Production outside of China is something that we've explored. We sell about nine different lines right now.

MS. PETTIS: Yes.

MR. ROOK: Nine different lines of tires and inner tubes and we've explored production outside of China for all those lines. I personally do it myself. And we've moved about six of those lines, eh, I guess five or six of those lines outside of China successfully.

It is something that we're trying to do. But, as you've heard over and over again, it seems like capacity is the real issue.

MS. PETTIS: Yes.

MR. ROOK: We consume a lot of rubber

products, a lot of tires in the United States. And worldwide, everyone is fighting to get production up to standards. Especially as countries like India and the continent of Africa come online as large consumers of tires.

MS. PETTIS: Yes. Okay, thank you.

MR. CONCEICAO: Yes, this question is for Mr. Miller. In your testimony, you said that domestic wheel producer, steel and aluminum wheel producers, have tended to eschew producing specialty trailer wheels, preferring automotive or truck products. What, in your opinion, would it take to make creating, make the creation of capacity domestically appealing enough to these producers for them to actually pursue that?

MR. MILLER: Sure. Good question. There's a couple dynamics. First of all, profit margins are going to drive a lot of that.

But the other interesting part is, there are, as I tried to reference, such unique specification requirements, that it's not an easy transition or bolt on.

So, just because you could raise that price through tariffs to incent domestic providers, doesn't mean they automatically will because it can actually be detrimental to their business. It distracts from what they do best, if you will.

So, I don't think it's just quite simply a matter of dollars, it's what they do day in and day out, and adding this on is almost more disruptive than what it's worth.

MR. CONCEICAO: As a follow-up, it would go beyond cost, there would have to be sufficient demand to warrant the creation of the capability?

MR. MILLER: That's correct. Yes.

MR. CONCEICAO: Thank you.

CHAIR GRIMBALL: Mr. Zhang, a large portion of your testimony focused on Southeast Asian countries' inability to fulfill worldwide requirements for tires. Has your company, Transamerica, specifically looked to any Southeast Asian countries to see if they could supplement some percentage of Transamerica's, I guess, inventory?

MR. ZHANG: Yes. Actually, we prepared a factory in Southeast Asia. But I testified three products. Special trailer tires, PCR tires and truck tires.

But the main thing is capacity. First, for special trailer tires, there is almost no capacity in USA or other countries.

In southeast Asian countries, only one or two manufacturers produce these products. But they're very, very limited.

In the USA, as I know, only Goodyear and another manufacturer produce the specialty trailer tires. But themselves import most of these specialty trailer tires from China, not in USA.

So, for the passenger tires, there is almost 23 percent of duty on the tires made in China. So, there's a reason we have a program in Thailand. A factory.

But even though, because of capacity

in Southeast Asia and USA, even the local, I mean, USA manufacturer, Cooper, they impose, but keeping impose, a lot more than passenger tire from China.

So, for the truck tire, actually is the same case.

CHAIR GRIMBALL: Okay.

MR. ZHANG: Thanks.

CHAIR GRIMBALL: So your facility, and correct me if I'm wrong, but your facility in Thailand manufactures specialty trailer tires and truck tires?

MR. ZHANG: No, it's only passenger tires.

CHAIR GRIMBALL: Only passenger tires?

MR. ZHANG: Only passenger tires.

CHAIR GRIMBALL: Okay. And what percent of your company, what percentage does that Thai manufacturing facility produce?

Like, what percentage of your companies like total tire shipments is supported by that Thai manufacturing facility?

MR. ZHANG: You mean the total for Thailand?

CHAIR GRIMBALL: For the passenger tires.

MR. ZHANG: For Thailand?

CHAIR GRIMBALL: Yes.

MR. ZHANG: Like 30 percent.

CHAIR GRIMBALL: Okay, 30 percent.

MR. ZHANG: Yes.

CHAIR GRIMBALL: Is it possible to increase that?

MR. ZHANG: Actually --

CHAIR GRIMBALL: That output.

MR. ZHANG: Actually, our company started by specialty trailer tires.

CHAIR GRIMBALL: Okay.

MR. ZHANG: Yes. And truck tires. And passenger tire is third program. So we are good at specialty trailer tires and truck tires, we don't want to give up.

CHAIR GRIMBALL: Okay. Thank you.

MR. ZHANG: Yes, thank you.

MR. BISHOP: We release this Panel with our thanks. And we invite the members of Panel 14 to please come forward and be seated.

We also invite the members of Panel 15 to come be seated in our waiting area.

Will the room please come to order?

Mr. Chairman, our first witness on this panel is Eric Astrachan of the Tile Council of North America.

Mr. Astrachan, you have five minutes.

MR. ASTRACHAN: Good afternoon members of the Trade Policy Staff Committee. And thank you very much for the opportunity to testify today.

My name is Eric Astrachan. And I serve as the Executive Director of the Tile Council for North America.

The Tile Council is the trade association for the North American tile industry. Our member companies account for more the 99 percent of U.S. tile production. And over 99 percent of U.S. mortar, grout, and related installation products manufacturing.

As with many trade associations, the Title Council serves both as a policy resource for member companies, and as a technical resource conducting cutting edge research and working with counterparts in other countries to establish international performance standards for tile.

We undertake these efforts on behalf of what is a sizable American tile industry. In 2017 Tile Council member companies shipped 1.4 billion dollars of domestically made tile.

And our tile producing member companies employed more than 5,750 workers. They annexed to USTR July -- USTR's July 17 Federal Register notice included ceramic floor and wall tiles, ceramic mosaic tile, and ceramic finishing products on a list of items subject to tariff increases. Thank you.

At USTR's May hearing, we on behalf of American tile manufacturers asked the Administration to include tile on the list of products subject to Section 301 tariffs. We cited rampant Chinese mislabeling, copying, and underselling of U.S. produced tile.

I'm here today to ask you to keep ceramic tile products, all of which are classifiable under HTS U.S. 6907, on the list. Specifically, the Tile Council supports the inclusion of items covered by 6907.21.10 up to and including 6907.40.90.

Despite our industry size, our industry is threatened by the growing presence of Chinese imports in the marketplace. For this reason, the inclusion of floor and wall tile, as well as finishing and mosaic tile, has broad-based support among U.S. manufacturers and industry suppliers, and is justified on trade policy grounds.

Imports of Chinese floor and wall tile and finishing and mosaic tile, merit inclusion on the list of products subject to tariffs for three reasons.

First, mislabeling. Porcelain tile sells at a premium in the U.S., both for the quality of its decoration made possible by porcelain technology, and for its low water absorption that it provides excellent freeze/thaw resistance and strength.

TCNA regularly finds imports of Chinese porcelain tile that do not meet U.S. or international standards for porcelain, defrauding the customer and damaging the tile industry through inferior products and the resulting complaints of poor performance. And by depressing prices for genuine porcelain tile products.

Second, IP violations. Ceramic tile producers devote substantial time and resources to product design and development.

As a building finish, ceramic tile is selected based on its design in addition to its performance. We regularly hear U.S. manufacturers complain of designs being copied by manufacturers in China. And their written comments will include numerous examples of such blatant copying.

Third, underselling. According to the latest international Trade Commission data, Chinese tile imports are priced at 86 cents per square foot. A dramatically lower price than the $1.52 per square foot for domestic shipments of ceramic tile.

This dramatic price discrepancy, a 57 percent difference, is indicative of predatory pricing. Particularly in light of the fact that some of the best clay deposits in the world are in the United States, close to manufacturing facilities of TCNA members.

In sum, the U.S. ceramic tile industry is threatened by unfairly traded Chinese product. And U.S. producers wholeheartedly support the inclusion of ceramic tile classifiable under HTS U.S. 6907, to the list of products subject to additional duty.

There are no downstream manufacturers using ceramic tile components. This is not the steel industry with steel producers pitted against steel consumers.

There's considerable excess tile producing capacity in the U.S., and no shortage of imports available from high quality tile producing countries that don't mislabel their products, don't steal IP, and don't dump in the U.S.

Sure, some importers taking advantage of artificially low prices will need to source from elsewhere. When Mexico put antidumping in place against Chinese tile, resourcing took place almost immediately and completed well within a year.

This trade action puts the Chinese on notice for their trade practices. And is a win/win for the consumer and for good clean tile producing jobs in America.

Thank you for the opportunity to testify today. Thank you for listening to the industry's concerns. And I look forward to any questions.

MR. BISHOP: Thank you Mr. Astrachan. Our next witness is Marisa Bedrosian of Bedrosian

Tile and Stone.

Ms. Bedrosian, you have five minutes.

MS. BEDROSIAN: Good afternoon members of the Section 301 Subcommittee. My name is Marisa Bedrosian. And I am Corporate Counsel for Bedrosian Tile and Stone.

Thank you for the opportunity to appear before you today on behalf of Bedrosians, our one thousand U.S. employees, and our many U.S. Customers.

Bedrosians has been operating as a U.S. business since 1948. And is now one of the largest, independent, U.S. importers and distributors of ceramic tile, porcelain tile, glass tile, and stone, with approximately 40 retail locations.

Bedrosians' customer base includes homeowners, contractors, builders, developers, architects, fabricators, and smaller distributors or retailers.

Bedrosians' customers are accustomed to a vast selection of product offerings from around the world. Many natural stones that are sold in the U.S. are indigenous to China, such as certain marbles, slates, and onyx.

China is also known for affordable granites that serve the commercial and multi-unit housing niche. Commenters like Mohawk Industries, Incorporated, are unfortunately using the 301 process to promote their own financial agenda, which is to increase profit margins, eliminate competition, and effectively create a monopoly.

Mohawk strongly urged the 301 Subcommittee to add ceramic tile to List One. And impose a 25 percent tariff. A position you rightly rejected.

Mohawk is the world's largest flooring manufacturer with approximately 50 percent of the U.S. tile market, a North American market share in ceramic tile that is substantially larger then the closest competitor.

Mohawk is the largest ceramic tile producer in the world with ceramic tile plants in the United States, Mexico, western and eastern Europe, and Russia.

Mohawk submitted comments to the USTR in May of this year expressing idle capacity at U.S. ceramic tile plants. However, Mohawk's 2017 annual report states it doubled capacity in its Salamanca, Mexico ceramic tile plant.

Doubled capacity in Mexico. If Mohawk refrained from increasing foreign capacity, they could utilize available U.S. capacity.

For the past two decades, Mohawk has bought up tile company after tile company, such that many of our former competitors are now bundled up within the Mohawk group.

Mohawk's growth has not been restricted by Chinese imports. But the imposition of these tariffs will restrict growth, or worse, destroy many independent tile distributors in the United States, and effectively impose a tax on the American consumer.

Mohawk suggests that the tariff will

not disrupt the U.S. economy because importers can simply purchase tile from other countries like Italy, Spain, Mexico, Turkey, Bulgaria, and Poland.

And while we do already purchase tile from some of those countries, this rationale neglects our existing relationships with factories in China that are producing hundreds of existing and unique tile collections with colors, patterns, and textures that cannot be exactly replicated.

Changing production countries and factories would require Bedrosians to discontinue hundreds of tile and stone collections. And if possible, relaunch similar but different lines produced from other countries.

In addition, Bedrosians would suffer financially from the time and resources required to research and develop new collections with new factories and lost sales from product discontinuations, in addition to excess inventory.

To relaunch hundreds of lines would cost our company millions of dollars in marketing alone. These are not financially feasible alternatives for Bedrosians.

The Tile Counsel of North America represents American tile manufacturers and their best interest. Comments submitted by the TCNA suggest mislabeling and IP violations on Chinese imports.

For the record, Bedrosians sends all of its Chinese imported tile to be tested at the TCNA laboratories. As for IP violations Bedrosians employs U.S. based, in-house product designers who develop proprietary tile color blends, shapes, patterns, and textures, which are then produced in Chinese factories.

The intent of the initial Section 301 action was to address the acts, policies, and practices of the government of China as it relates to technology transfer, intellectual property, and innovation.

Our imports and business dealings with

China have no technology component. Our products do not contain industrially significant technology, including technologies and products related to China's Made in China 2025 industrial policy program.

Our products are some of the oldest, most dated in the world. We sell clay tiles and stones manually cut from a mountain.

Our products should not be included on this list simply because of comments received by those whose pockets will directly profit from the tariff imposition.

I respectfully ask that you remove ceramic tile, porcelain tile, natural stone products, glass tile, and engineer quartz from the list of products that will be subject to the Section 301 tariffs.

Thank you for your time. I am happy to answer any of your questions.

MR. BURCH: Thank you Ms. Bedrosian. Our next panel witness is Brian Carson with Mohawk Industries, Incorporated.

Mr. Carson, you have five minutes.

MR. CARSON: Good afternoon. My name is Brian Carson. And I'm the President of the North American Flooring Segment of Mohawk Industries.

Thank you for the opportunity to testify today. And I appreciate the tremendous work the Section 301 Committee has done for the hearing and throughout the investigation.

Mohawk is the leading U.S. manufacturer of flooring products. Our products include carpet, rugs, ceramic tile, laminate, wood, stone, and vinyl flooring.

Our industry leading innovations have yielded products and technologies that differentiate our brands in the marketplace. Our brands are among the most recognized and respected in the industry, and include American Olean, Daltile, Durkan, Karastan, Marazzi, Mohawk, Lees, Mohawk Group, Pergo, Unilin, Quick-Step, and IVC.

Since the early 2000s, Mohawk has

transformed its business from what was essentially an American carpet manufacturer, into the world's largest flooring company with operations across the world.

In the United States alone, we operate 49 manufacturing facilities with over three hundred distribution points and service centers, with over 21,000 workers, employed in 49 states across the United States.

Mohawk supports USTR's inclusion of the following products on the final list of goods subject to the additional 25 percent duties: vinyl flooring, particularly vinyl tiles, laminate flooring, engineered wood flooring, carpet, rugs, and ceramic tile.

Unlike many of the opponents of the Section 301 measures who do not manufacture flooring products in the United States, Mohawk has remained committed to U.S. manufacturing and technology innovations despite tremendous market pressure exerted by Chinese imports.

Mohawk has invested over one and a

half billion dollars in the last five years adding, expanding, and upgrading its facilities. The return on these investments has been and will continue to be adversely affected if China's unfair trade, intellectual property, and industrial policies remain unrestrained.

The proposed Section 301 action on Chinese flooring will allow U.S. flooring manufacturers, such as Mohawk, to improve capacity utilization, expand production, and create more jobs.

The action will impact about 3.5 billion dollars of Chinese imports. And is critical to the ability of Mohawk and other manufacturers to continue to invest in U.S. manufacturing.

U.S. manufacturers are capable of supplying U.S. consumers' needs for these products. And in the limited instances where capacity is insufficient to meet the demand, alternative third country sources are available to supplement the U.S. supply while additional

U.S. capacity is brought online.

I can state unequivocally that U.S. manufacturing capacity and jobs would increase if Chinese imports stopped flooding the market.

Take vinyl flooring for example. Census statistics show imports of Chinese vinyl flooring alone total 1.7 billion dollars in 2017.

We estimate imports from Asia, primarily China, occupies 65 to 70 percent of the market, with the remaining 30 to 35 percent coming from U.S. producers.

Imposition of duties on Chinese vinyl flooring is necessary to stop these products from flooding the U.S. market and threatening to force the U.S. manufacturers out of the industry.

We will provide confidential statistics in our written comments to demonstrate that U.S. vinyl flooring production capacities are severely underutilized as a result of the dominant presence of Chinese imports.

The unused capacity with additional capacity outside of China in counties such as

South Korea, and in the European Union, is sufficient to meet the demands that are currently fulfilled by Chinese products.

Finally, the imposition of Section 301 measures on Chinese flooring products is necessary to achieve the objectives of the Section 301 investigation. Including to respond to Chinese retaliatory actions to the U.S. Section 301 measures, and to compel China to change its acts, policies, and practices.

China has recently included the very tariffs on the products that are being considered as part of the Panel. So backing down on tariffs on flooring products is not an option.

Thank you. And I'm available to answer any questions you may have.

MR. BURCH: Thank you Mr. Carson. Our next panel witness is John Newcaster with IMPACT Industrial Minerals, LLC.

Mr. Newcaster, you have five minutes.

MR. NEWCASTER: Thank you. And again, appreciation of the opportunity to provide testimony to this Panel today.

Today I am an independent consultant. But, between the years of 1992 and 2016, I was the Supply Chain VP of two major drilling fluid companies, M-I SWACO, which is now part of Schlumberger, and then later Baker Hughes' Drilling Fluids.

As such, over -- at different times. As such, I was responsible for much of the U.S. barite supply, natural barium sulfate to the oil and gas industry. Both the production domestically and imports, which were ground in Texas and Louisiana by both of those companies.

Since I've retired from Baker Hughes, my barite related consulting clients have included over the last two years, Chinese exporters, Indian exporters, a Mexican exporter, a future Canadian exporter, and two of U.S.'s drilling fluids companies, one still a major importer, and also a major wholesale customer of the industry.

I want to make it clear that I'm fully

supportive of the Administration's objectives. And I want the best outcome for U.S. trade and U.S. energy objectives.

So I believe that I provide a unique perspective as an independent voice. And maybe the only individual with direct involvement in three major events that have a profound shape on today's international barite trade.

In 2006 I presented the first request to the American Petroleum Institute, who had a panelist on the last panel, a witness, to lower the density specification for the oil and gas industry.

This extended the U.S. reserves and production in Nevada. And it enabled Moroccan and Indian competition with China. Which was the dominant provider.

Second was I was instrumental in opening the first foreign trade zone to mitigate the existing and still current tariff on Chinese barite unground.

Bu third, and probably most

significant, I made the first purchases from private enterprise companies in China in 1997/98, leading to a fairly rapid dissolution of the state owned enterprise control of barite exports, making actually Chinese barite very subject to competitive forces with competing exporters in China, which it still is.

I'd like to reinforce six points that I'm sure are going to be repeated by some of the fluids companies who are testifying later in the week. Number one, barite or barytes is required for oil and gas drilling. There's really no substitute material.

The U.S. is not and cannot be self-sufficient from Nevada. Chinese barite is required, even with domestic barite supplemented by Mexican, Moroccan and Indian imports.

A 25 percent increase in Chinese barite ore will translate immediately to a 25 percent increase in all available imported ore. Chinese prices set the world market.

The U.S. is the biggest user. China

is the biggest producer. Moroccan and Indian competitors will set their prices accordingly upward to come in under the Chinese -- the new Chinese costs.

Indian pricing is actually set by a state monopoly in the State of Andhra Pradesh. And quality Moroccan supply is very limited.

The consequences to China of the 25 percent tariff are actually very minimal if at all. Over 50 percent of Chinese mines have been closed in the last two years.

It's not 50 percent of capacity, but a lot of small mines, for environmental reasons. And their domestic demand for barite is up significantly. Which is already tightening export availability.

Barite is a low margin export. The Chinese exporters cannot drop their price 25 percent to keep the U.S. market.

The miners and exporters will save their reserves or they will divert their supply to other export markets probably at a new high price for them.

There is no ability for the Nevada producers, and I used to be one, to make up any significant difference due to the depleting reserves in Nevada, higher mining costs, processing constraints, and the served market limitations due to the U.S. rail freight cost.

Although very unlikely, an outright Chinese ban or restriction on barite export to the U.S. as a retaliation to the tariff, would have severe short term consequences for U.S. offshore drilling as China is now the only reliable source for the higher offshore -- API offshore grade barite.

So, in conclusion, a tariff on Chinese barite ore and powder yields no U.S. benefit. Results in no negative Chinese consequences. And actually penalizes U.S. drilling costs, adding to the cost of U.S. oil and gas.

So I respectfully request that China origin natural barium sulfate, HTS code 2511, be excluded from the proposed 25 percent tariff.

I'd be happy to answer questions later.

MR. BURCH: Thank you Mr. Newcaster. Our next panel witness is Chris O'Connor with Congoleum Corporation.

Mr. O'Connor, you have five minutes.

MR. O'CONNOR: Thank you. Members of the Section 301 Committee, thank you for the opportunity to testify today.

I am Chris O'Connor, President and Chief Executive Officer for Congoleum Corporation or Congoleum. I'm here today to support the proposed imposition of tariffs on Chinese imports of certain vinyl tile and plank flooring products, and all resilient flooring products.

Congoleum also supports tariffs for any product that is in the resilient product category, since not all resilient products contain vinyl. Congoleum is a U.S. manufacturer of residential and commercial durable flooring products.

With a history dating back to 1886,

Congoleum is a classic example of a U.S. company that has thrived on ingenuity and innovation, with over five hundred United States patients granted to date.

For instance, Congoleum invented one of the first luxury vinyl tile products, DuraCeramic, which was introduced into the U.S. market 18 years ago.

Most recently, Congoleum invented and patented a digitally printed resilient flooring product that uses no PVC, no plasticizers, no Phthalates, and no flurochemicals. It is 100 percent produced in the U.S. and it is certified platinum for sustainability in indoor air quality by recognized independent third-parties.

These products are stylish new alternatives and are patent protected. They are helping us to revolutionize our U.S. business.

We are a proud U.S. company fighting hard to survive in the global economy. Indeed, Congoleum is the very type of high-tech U.S. company that the Section 301 tariffs are intended to protect.

Thus, even though many of our products are patented, we support tariffs on all resilient flooring products which compete directly with ours.

Congoleum employs over four hundred people in New Jersey, Pennsylvania, and Maryland, including Union employees that are manufacturing and selling domestically produced vinyl flooring.

With the success of our new product launch, Congoleum expects to hire significantly more employees. Moreover, retailers across the United States sell Congoleum resilient flooring products, and depend on such sales for their livelihood.

More broadly, in 2017 the U.S. flooring industry represented -- the U.S. resilient flooring industry represented four billion of the overall 22 billion dollar flooring industry.

Our industry employs tens of thousands of American workers. Currently the U.S. industry has more than sufficient capacity to meet any domestic consumption needs. And more U.S. plants are currently under construction and nearing completion to meet future demand.

Congoleum understands what it means to be competitive in the global marketplace. Indeed, in addition to the premium products Congoleum manufactures domestically, it also imports vinyl flooring products from China.

These imported products are intended in USTR's third list of products proposed for Section 301 tariffs. As the U.S. vinyl flooring industry matured over the years, many of our competing companies moved toward sourcing more and more internationally.

With about 40 percent of our competitors relying on Chinese imports, it was impossible for our industry trade association to reach a consensus to participate in these proceedings.

This is a complex issue for the industry, but for us, the answer was simple.

Congoleum stands proudly with and for U.S. industry, U.S. manufacturing businesses, U.S. jobs, and American workers.

To protect our fundamental business interest as a U.S. company rooted in U.S. high-tech product development, we support and applaud the efforts of this Administration and request that tariffs be imposed on vinyl flooring products and all resilient flooring products imported from -- imported from China.

Indeed, we support the imposition of a 25 percent tariff on these products or higher. We commend this 301 Panel and all the hard work you are doing during this process.

We will supplement this testimony as necessary with a post-hearing rebuttal submission. But on behalf of Congoleum, thank you for the opportunity to testify today.

And I look forward to answering any of your questions. Thank you.

MR. BURCH: Thank you Mr. O'Connor. Our next panel witness is John Karson with FX

Minerals, Incorporated.

Mr. Karson, you have five minutes.

MR. KARSON: Thank you for this opportunity as well. I applaud the fact that as an individual and a representative of hundreds of companies that we could air our opinions in such an open setting.

My name is John Karson. And if you just use my written submission as a reference when I call up to certain pages maybe.

The classifications on page two are the ones I'm referring to. And these classifications bound for the tariff charges are in complete opposition to the goals of our present U.S. strategy.

They are in opposition in the first place to level the playing field to make American companies more competitive. And another being to bolster certain industries such as steel and energy.

The classifications I will discuss today are primarily used in those industries.

They are strategic as defined by the U.S. government.

They are not readily available in the United States. And they do not affect China in a negative fashion, only affecting U.S. interests.

Other organizations support my testimony on a few of these. And related, as we just heard, Mr. Newcaster and Mr. Comstock from the API in the last session.

Other organizations such as the American Petroleum Institute represent oil and gas interests, and the small manufacturing -- the Steel Manufacturing Association represents U.S. steel industry.

The two classes I'll speak about first are refractory raw materials. Refractories are those special materials which can take high heat.

They are made into bricks or shape, and can withstand temperatures up to 32 hundred degrees. And are used in steel making, aluminum alloy furnaces and so on.

There's two main minerals which we use

for these products, alumina and magnesia. And they're made from -- the alumina is made from bauxite ore. Magnesia is made from magnesite ore.

And the way to look at those are similar to iron and iron oxide. Iron is the metal. Iron oxide is the oxide.

There are different uses for those. Alumina -- bauxite can be used to make aluminum, but those come from different counties other then China.

The -- I'm going to group the other -- the first classifications together, which are the fire clays, calcined bauxite and corundum. They are just basically different levels of the same product, different grades.

The largest deposits of this grade of usable bauxite are in China. The only other second choice in America is from Guyana in South America. That source is owned and operated by a Chinese Bauxite supplier.

The United States does not have enough

quality reserves nor production capacity to manufacture calcined bauxite.

Another exciting use for this product is found by the U.S. Federal Highway Authority. They found that the qualities of this material as an anti-skid material for road surfaces are far superior to any other material, testing dozens of materials.

But calcine bauxite from China is the only approved source. While other materials actually rounded off and increased skid related accidents, bauxite stayed sharp and angular for eight to ten years.

Where this product's been used, accidents have been reduced 20 to 100 percent. A tariff here would affect many contractors hired by State Departments of Transportation who implement this material.

It will affect the safety of our highways and the amount of projects under the infrastructure bill. I have a little sample of it in case anybody wanted to see it.

The other categories, magnesite and silicon carbide, basically are the same as the bauxite in that there are no supplies here. And they're considered strategic sources.

The statistics from the USGS and import stats show that the U.S. is incapable from sourcing the above classes domestically. And that is concerning as these items are also strategic to our nation.

The reports on page eight and nine highlight a government study that shows these products are critical to U.S. interests, and the defense interests of the United States.

Without refractory raw materials, you have no refractories. No refractories, no steel. No steel, no machinery, appliances, et cetera.

More proof that these minerals are important to the U.S. was the fact that the U.S. petitioned the World Trade Organization to overturn China's policies that affected the sale of these minerals by the use of export quotas. There's an overview of that on page eight and nine.

The American Petroleum Institute says -- speaking on the barite subject now, American Petroleum says that increasing the cost of imported products with tariffs will likely hurt energy growth.

And U.S. Geological Survey says that substantially reduced barite exports from China would significantly decrease drilling activities and cause a major price increase.

There is very little effect that these tariffs would have on China, whether it's refractory, road friction, or the oil and gas drilling minerals.

So, to review, which is on page 13, there are no or limited domestic supplies of these raw materials. No interchangeable international supplies.

They're strategic materials as determined by the United States. The U.S. Government already fought to stop the price increases on these raw materials from China through the World Trade Organization.

And the tariffs would be harmful to U.S. businesses, U.S. competitiveness, national security, energy security, and highway safety. And it contradicts U.S. policies to steel companies and other people we're trying to help.

Thank you.

MR. BURCH: Thank you Mr. Karson. Our next panel witness is John Mattke with National Building Granite Quarries Association.

Mr. Mattke, you have five minutes.

MR. MATTKE: Thank you. Good afternoon. My name is John Mattke. And I'm currently with Stone Panels International in Marble Falls, Texas.

I was formerly President of Cold Spring Granite, which is one of the major granite quarriers in the United Sates. And I'm testifying today on behalf of the National Building Granite Quarries Association, which is a trade association that represents granite and other stone quarries across the country.

Products from U.S. granite quarries are incorporated into major monuments and structures across Washington, D.C. Examples are the U.S. Capitol Building, the White House, the FDR Memorial, the Korean War Memorial, Lincoln Memorial, the National World War II Memorial, and literally, too many others to name.

The U.S. granite industry strongly supports the proposal to apply 25 percent tariffs to imports of granite and other stones from China.

For more than a century, American granite manufacturers have been instrumental in producing a wide variety of natural stone products ranging from rough blocks and construction material to monuments and memorials.

Today the natural stone industry in the U.S. is quite large, employing approximately 70 thousand men and women across the country. And it includes many legacy quarries and stone producers in regions like Minnesota, Texas, Georgia, Indiana, and Vermont.

Unfortunately, the influx of imported stone over the last 25 years from China and a few other countries, has depressed U.S. production and forced closures and layoffs in the U.S. industry.

As an example, of the 24 manufacturing firms in the Berry Granite Association 20 years ago, only 12 remain today.

As another example, in our company during that same time period, Cold Spring granite production and the employment associated with it has declined approximately 70 percent. The rest of the association membership has seen similar declines.

According to data from the U.S. International Trade Commission and the U.S. Geological Survey in 2016, natural stone imports of all types total approximately 2.5 billion, compared with only about five hundred million in domestic production.

For granite, the figures are somewhat worse with imports totaling 1.1 billion and domestic production at about 150 million.

Based on these figures and historical employment in the industry, we estimate that imports may have cost the U.S. as many as 16 thousand jobs throughout the natural stone industry.

Included with my testimony today is a chart tracking the rise in stone imports from China over the last two decades. As the chart illustrates, stone imports from China have increased 500 percent during the period.

Granite imports have increased at a faster rate. U.S. exports to China have remained stagnant at a very low level.

The playing field with China is heavily tilted in favor of Beijing. U.S. tariffs on natural stone products are low, mostly in low single digits.

China has much higher tariffs on similar stone products. For example, U.S. quarry blocks shipped for consumption in China face a duty including both tariffs and VAT taxes of about 25 percent.

Figures vary with a specific market in stone product. But the overall picture of a playing field that unfairly disadvantages American producers is undeniable.

Even with the additional 25 percent U.S. tariff we're discussing today, U.S. tariffs on granite products would still be just comparable to the tariffs and taxes applied by China.

To further document the problem, in June 2018 the U.S. International Trade Commission found that China was selling quartz surface products at less than the fair market value due to government subsidies and other forms of government assistance to the Chinese industry.

We believe these same subsidies have been available to and used by Chinese granite producers for years as the two industries are very closely linked with great overlap.

The U.S. granite industry strongly supports employing Section 301 to apply increased tariffs to granite and other stone products from China.

It is an important step toward establishing a level playing field for the American industry. And we believe this tariff should be expanded to cover all forms of granite block and other similar geological stone types.

We also believe the consumer impact of these tariffs would be small and probably unnoticed.

U.S. production can quickly expand and support a resurgence in the key natural stone quarrying and manufacturing regions. And this would be an important boost to local employment and growth in communities across the United States.

Thank you very much.

MR. BURCH: Thank you Mr. Mattke. Our next panel witness is Rupesh Shah of M S International.

Mr. Shah, you have five minutes.

MR. SHAH: Good afternoon. My name is

Rupesh Shah. I'm president of MSI. Thank you of the opportunity to appear here today.

MSI is a leading distributor of flooring, counter top, wall tile, and hardscaping surfaces in North America. We're headquartered in Orange, California and we maintain distribution centers across the U.S.

Our product line includes natural stone, porcelain, ceramic, glass, vinyl, and quartz. I'm very proud of the history of MSI.

We were founded in 1975 in the basement of our home in Fort Wayne, Indiana, by my parents who had immigrated from India just a few years earlier.

From those humble beginnings, MSI was awarded the contract to supply the black granite for the Vietnam Veterans Memorial.

In the United States today MSI employs over 16 hundred hard-working Americans across 18 states. We have 24 distribution centers occupying almost three million square feet.

I'm here today because MSI strongly

opposes the imposition of tariffs on foreign counter top, hardscaping and wall tile products.

Section 301 tariffs on these products would be misplaced. These tariffs would harm the consumer. They would harm U.S. jobs. And they would harm U.S. companies essential to the U.S. hard surfacing supply chain like MSI.

USTR has concluded that China has undertaken certain policies towards the United States that are unreasonable and burden U.S. commerce. This investigation focuses on the Made in China 2025 initiative.

Our products are unrelated to this fight. And I note that USTR has gone out of its way to avoid impacting such products in its first two tariff lists.

Indeed, you rejected a competitors request to include some of these very same products on your List One.

Now, allow me to explain just how these -- how tariffs on these products will have harmful effects on U.S. consumers, jobs and the supply chain.

First, consumers. Tariffs on Chinese hard surfacing products will undoubtedly have a negative impact on broad swaths of American consumers.

That said, the harm from these taxes is going to be felt most acutely by consumers of lesser means. Imports of Chinese porcelain, ceramic and vinyl tile tend to serve the lower end of the budget conscious market, enabling builders to afford -- to offer more affordable housing solutions.

Tariffs on these tiles would raise housing prices disproportionately for lower to middle income Americans. In other words, USTR would be placing the most vulnerable Americans in its cross hairs, not China.

China is a primary supplier of several popular hard surfacing products to the U.S. For example, in 2017 on a volume basis, we estimate that China provided nearly 90 percent of all imported glass mosaics. And there's virtually no domestic options.

China also provides a large share of imported natural stone for decorative uses. A resource that is not readily available here in the United States.

Because the U.S. market relies so heavily on Chinese supply of products like glass mosaics and natural stone products, these taxes will drive up prices resulting both in a reduction in demand and constricting supply. Thereby limiting consumers' choices in the marketplace.

Second, jobs. All of MSI's products have a very high U.S. manufacturing and labor component. The labor includes operations like cutting, fabricating, transporting and installing counter tops, flooring and wall tiles.

In most cases, the U.S. labor component of installing these materials is significantly more then the value of the materials themselves. As a result, a reduction in demand for these products would more negatively impact American, not Chinese, employment.

Additionally, higher end products like natural stone and quartz involve greater amounts of U.S. labor. As prices for these products are forced upwards, consumers will opt for competing products that involve less U.S. labor such as laminate or solid surface. This again is certain to impact American employment.

Finally, supply chain impact. The proposed tariffs on hard surfacing products will harm all of those involved in the supply chain, including MSI.

We've invested tens of millions of dollars over the last three years to develop this supply chain, which includes American manufacturing jobs to support sales of the categories of products that USTR now proposes to tax.

For example, we've invested tens of millions in hiring and training our employees, in marketing and merchandising to promote the products, and trucks to expand our delivery capabilities, and showrooms to give consumers a broad spectrum of choice, in distribution centers to house our expanding inventory of products, and added information systems to ensure we have the most productive work force.

To provide some perspective, we have almost doubled our work force over the past three years, hiring approximately seven hundred employees here in the United States.

USTR's proposed tariffs will force MSI and others similarly situated to downsize our work force and our product offerings.

In sum, tariffs on these low technology products will not serve as -- will not serve USTR's purpose in this investigation.

Rather, these taxes will adversely impact American builders, consumers, distributors, retailers, designers, and logistics providers.

I'm pleased to answer any questions.

MR. BISHOP: Thank you Mr. Shah. Mr.

Chairman that concludes direct testimony from this Panel.

CHAIR BUSIS: Thank you Mr. Bishop. Before we start with our questions, I'm going to ask the Committee to -- representatives to introduce themselves again. Staring with you.

MR. SECOR: Peter Secor, State Department.

MR. CONCEICAO: Evan Conceicao, Customs and Border Protection.

MR. HARDMAN: Hi. My name's Ben Hardman. I'm with the International Trade Administration with the Department of Commerce.

MS. HOWE: I'm Julia Howe with the U.S. Trade Representative's Office.

MR. McGUIRE: Hi. I'm Tym McGuire with World Agricultural Service in USDA.

MS. PETTIS: Maureen Pettis, Department of Labor.

MS. SMITH: Tanya Smith, the SBA.

CHAIR BUSIS: And I'm Bill Busis, Deputy Assistant USTR for Monitoring and

Enforcement and Chair of the Section 301 Committee. Julia?

MS. HOWE: My first question is for Mr. Astrachan. Does the domestic tile industry have capacity to meet demand for ceramic and porcelain tiles?

And if you do not have current capacity, approximately how long would it take to develop sufficient capacity to meet demand?

MR. ASTRACHAN: There is excess capacity in the industry today. So there would be some of what is coming from China today could be met by current capacity.

A tile factory takes more or less one year or less to build. And there certainly is excess capacity from many other countries that do also ship to the U.S., such as Brazil, India, many European countries, Vietnam, Mexico, and so on.

But a tile factory specific to your question, would be one year or less. And there is immediate capacity available today.

CHAIR BUSIS: Mr. Astrachan, you testified in support of imposing duties on these products. But, I didn't hear you address the rate.

Do you have a comment on the rate to raise it in our proposed -- in our notices?

MR. ASTRACHAN: Well, if more the 25 percent is available, we'd like to talk about it. But we're satisfied with the 25 percent that has been proposed. Thank you.

MS. HOWE: Sorry, I just wanted to add, you mentioned that you would be including in your written comments numerous examples of blatant copying.

I would just ask, if possible, when you do submit that, to include any market impact that those copying examples have on the U.S. market.

MR. ASTRACHAN: Okay. Thank you. We will.

MR. HARDMAN: Good afternoon Ms. Bedrosian.

MS. BEDROSIAN: Good afternoon.

MR. HARDMAN: I notice here that you say that Chinese granite serves a niche market in commercial and multi-unit housing. Do you mind explaining why that is? Or why you think it is?

MS. BEDROSIAN: Sure. Yeah. So, Chinese granites are affordable stone. They're affordable granites.

And they are used in multi-unit housing and commercial developments where budget is a concern, and so is timing. And so production capabilities in China are about twice as fast as they are in the United States.

Granite, if you were to impose this tariff on Chinese granites and Chinese stone, it wouldn't be a swap where those builders and developers would use U.S. granites on these projects.

What would end up happening is they would purchase lower quality alternatives like laminate for counter tops or flooring solutions. Which would end up decreasing the value of the home for American homeowners.

It would also decrease business for stone fabricators and tile and stone installers. I hope that answers your question.

MR. HARDMAN: Yes. Thank you. And you also testified that you thought obviously that our domestic industry would be -- would benefit from this tariff.

And you know, do you want to expand on -- they seem to have the capacity.

MS. BEDROSIAN: Well, so right now there's about 650 million square feet of tile that's imported each year from China. And so that's quite a bit of demand.

I don't think that there is current capacity in the United States to meet those demands. Our -- you know, we currently purchase about 70 percent of our products from China.

And so we wouldn't -- we wouldn't be purchasing all of those products from the U.S. Again, we have a number of different customers from different economic situations.

And so we have to offer products for all different types of American consumers. So, it's not -- it's not that that 650 million square feet from China would just end up being produced here in the United States.

There are many other countries that are producing at rates lower then China. And so, you know, to his point, I'm not sure that that is the solution that we want.

You know, our products are unique. They're artistic products. So, our customers care very much about what those products look like.

Their counter tops and their floors and their back splashes have to match the paint on their wall, and their cabinets and appliances. And so, it's not -- it's not an easy transition to just take the products that we're currently producing and just make them somewhere else.

Because if the shade is even off just a little bit, the homeowner is not going to be happy. Right?

So when I say that we have to -- we would have to remarket all of our lines, I'm being serious. Because we need to represent our products accurately to the American consumer.

MR. HARDMAN: Okay. Thank you. And having just put back splash in my kitchen, I can appreciate the process of picking out colors, so.

MS. BEDROSIAN: Yes.

MR. McGUIRE: So my question is for Mr. Carson. So, similar to Mr. Astrachan, you testified that U.S. manufacturing capacity would increase significantly if Chinese imports of flooring material faced a tariff.

So could you clarify at least for your company, and also from your perspective, on the broader industry, whether that increase would be coming primarily from increased utilization of existing capacity?

Or the addition of new capacity? Or you mentioned some supplementing with imports. Those sorts of things.

MR. CARSON: Sure. Sure. Well, we

make all the different products. But in general there's open capacity in the United States in all these products.

We have open capacity. There is additional capacity that's being added. We've built three plants in the last two years, so there's capacity going in.

There's capacity that can get repurposed from one product to the other. And we're doing some of that.

And you know, if we look at the U.S. flooring market, and you look versus ten years ago to today, the U.S. economy went into a downturn. Demand for flooring went down.

It came back up. But the market is not dramatically different then it was ten years ago in terms of total demand.

What is different, is all these materials that are coming in right now disrupting the market. So, there's a lot of latent capacity in all these different products sitting in the U.S.

And in many cases, when a consumer is going in to pick a product, it's not so clear to that consumer that it's going to be laminate versus wood versus vinyl. They're selecting floors. And there's a lot of interchangeability with these floors.

So, there's plenty of capacity in the United States to meet the U.S. demand for different flooring products.

MR. McGUIRE: Thank you.

MR. SECOR: My question is for Mr. O'Connor. You know what percentage of vinyl flooring is coming in from China in the U.S. market now?

MR. O'CONNOR: I'd say probably about half.

MR. SECOR: And if the tariffs were to go into effect, is there capacity in the U.S. that could be built up to meet that demand?

Or would product come in from other countries?

MR. O'CONNOR: I believe it would be

made in the U.S. We ourselves have lots of excess capacity.

So, I can't speak to our competitors. But it's not just Mohawk. There are at least three or four good sized manufacturers that I know of that have excess capacity to make vinyl flooring.

MR. SECOR: Thank you.

CHAIR BUSIS: Mr. Mattke, before we start a more substantive question, could you describe what the granite you're talking about, what it's used for? Is it used for some of the flooring and back splash issues we've been discussing? Or -- yeah.

MR. MATTKE: Sure. We quarry granite for a variety of different industries. Globally I mentioned some of the projects that are here in D.C.

So, commercial building projects. We quarry stone that is put into tile. We quarry stone that is used for counter tops.

We do a lot of memorial, monumental

stone. And build private mausoleums and different things for the memorial market as well.

And then we try to use every bit of excess in crushed for road base and that kind of thing. So, we try to utilize everything we take out of the ground.

Those are the major markets though.

MR. CONCEICAO: And if I can tack onto that.

MR. MATTKE: Sure.

MR. CONCEICAO: In your testimony you said that -- I've got the figures here. In 2016 there was about 2.5 billion dollars worth of natural stone imported. And 1.1 billion of granite.

What percentage of that came from China? If you know.

MR. MATTKE: Yeah. That's a -- that's a good question. I have that data. I don't have it in front of me.

But I believe -- I'm going to say it's about 30 percent of that granite came from China.

I can provide that for the Committee though.

MR. CONCEICAO: If you could, that would be great.

MR. MATTKE: Be happy to.

MR. CONCEICAO: And just to follow up with that, in the even that additional duties are imposed on natural stone and granite from China, how quickly can U.S. suppliers ramp up capacity to -- or to meet demand?

MR. MATTKE: It's a multi-phased question. Quarrying capacity could ramp up very quickly.

There are a lot of quarries that are currently sitting idle because there's no demand for them. So, going back in and doing a little bit of development and starting to pull material out, could happen very quickly.

There is significant excess capacity in slabbing in manufacturing in the U.S. A little hard to put a number on it.

But I would say we could easily double in six months with how much is being manufactured.

But to get at the question that I think is on everybody's minds here a little bit, is how do you replace everything coming in? It's more complicated than that.

Because there are different stones coming from all over the world, some of them we have in abundance here. Some of them we don't.

So, to think that we're going to try to replace all the capacity of the imported material is not reasonable.

MR. CONCEICAO: All right. Thank you very much.

MR. MATTKE: Um-hum.

MR. HARDMAN: Good afternoon Mr. Shah. I noted that you kind of pointed out that glass mosaics were one of the areas that you thought wasn't available outside of China. At least not in your supply.

There's nowhere else that --

MR. SHAH: It's not that there's nowhere else. There's nowhere -- I think I -- we estimate about 90 percent of glass mosaics today come from China.

So, there's limited supply of very niche type products for back splashes outside of China. But nowhere remotely close to service current demand.

MR. HARDMAN: Okay. And you -- and the other products that you are concerned about, how much of that could be sourced domestically or from third countries?

MR. SHAH: I wholeheartedly disagree with a lot of the statements here. There's by no means anywhere close to the domestic capacity to support the current demand for luxury vinyl tile.

I heard the number 50 percent mentioned on a volume basis. I think it's more like 70 percent of luxury vinyl tile is sourced overseas.

On porcelain and ceramic tile, I do not believe it takes one year from when you start a project to have a factory in place. If you look at the last few factories from the point it was decided to start evaluating increasing capacity to the time it started was well over one year, even more than two years.

I heard that 650 million square feet of imports, there is not that type of capacity for what the market needs today.

The domestic market for ceramic tile in general does not want to cut the types of products that come from overseas. For example ceramic tile, very few U.S. manufacturers even want to touch ceramic tile today.

When you get into porcelain tile, they'll have their own set of requirements. And quite frankly, they'll want to cut what they can make the highest margin on.

Right? Instead of what the needs of the market are. So, the domestic production does not exist on -- let's talk about granite.

On granite counter tops, we offer 180 colors today. We've attempted to offer U.S. domestically sourced colors.

We used to have two colors. And

because of a lack of demand, we no longer even offer those colors.

The granite one is pretty simple. The colors that are in demand aren't available domestically.

I would love to source domestic granite. Unfortunately the consumer doesn't want those looks today.

MR. HARDMAN: Okay. Thank you.

CHAIR BUSIS: Before we leave our six building material witnesses, there's been a lot of disagreement. If any of you would like to have a final comment on something that would be fine.

MR. CARSON: Okay. We will. Maybe one -- one that -- in the European Union has imposed tariffs on some of these products in question, on these flooring products in question for some of the same reasons relative to China.

Well that capacity doesn't go away overseas. That capacity just finds another market.

And that capacity is starting -- is finding this market. So, -- and that point didn't come out, but I think that's an important point.

That that capacity over there is finding whatever markets it can find as other markets have taken actions for some of the same reasons why we're discussing these actions.

CHAIR BUSIS: Go ahead. Just go ahead, yeah.

MR. O'CONNOR: Yeah, I'd just comment on it maybe 70 percent of vinyl, but as far as capacity, imported vinyl as Brian mentioned, has disrupted the U.S. flooring market.

It's grown. It's taken market share not just from sheet vinyl or U.S. spaced LVT, it's taking market share from wood, carpet, laminate, sheet vinyl.

And we've looked at pricing and there's been instances where we can't buy raw materials for the costs that we could import it, a finished product for.

So, there is a lot of disruption in the market. And it has allowed a lot of distribution companies basically to source direct.

And of course if you source direct, then you're not going to be for the tariff. But we -- I've -- get there, we've invented one of the first LVTs many years ago, and we've lost a lot of market share to LVT.

Sheet vinyl, we -- we're probably the second largest producer of sheet vinyl in the U.S. And that has lost a lot of market share to vinyl.

So, there are substitute products, I think that could be used. And us -- I can only speak for capacity.

You know, we're bringing on about 40 million feet a year of capacity of a product that's very similar to LVT. But we're digitally printing on it. It's PVC free.

And you know, I think we can ramp that up with some modifications to our plant, you know, too probably, 150 million square feet.

And I don't think Congoleum is alone in that. I know that Armstrong has repurposed a sheet vinyl plant to make LVT in the U.S.

So, U.S. manufacturers are finding ways to make LVT and be competitive. But it is very difficult at the price points that the imported products are coming in at.

CHAIR BUSIS: Thank you. And you all of course are welcome too. Mr. Astrachan, go.

MR. ASTRACHAN: Thank you. I've had a chance to review the last expansions over the last few years, and I can state with absolute certainty that additional capacity can be added in less than a year. Because it's not just new tile factories, it's kilns added in existing tile factories.

Even new tile factories have gone in in less than a year. And we're aware of additional manufacturers that want to build in the U.S.

So, and their types of time lines from

the time they break ground to having a tile factory up and running are less than a year.

So I assure you that the -- we have evidence of tile capacity being brought on in that time. Six hundred and fifty million is a lot.

But it's by no means inconceivable for companies that today are producing around a billion square feet.

And there's plenty of excess capacity in all sectors from countries that don't steal our IP, don't mislabel, and don't dump in the U.S.

CHAIR BUSIS: Okay. Thank you. And you're all wel -- oh, did you --

MR. CARSON: I was going to say, as a company that builds theses factories, they can be built in a timely fashion.

CHAIR BUSIS: So thank you. This was a very passionate flooring discussion. You're all welcome of course to put things in your post-hearing submissions.

Now we're going to go Mr. Newcaster. Before we start on the substantive issue, I just want to make clear, Lawrence, are you testifying here like pro bono as lawyer would say? Or are you on behalf of a client?

MR. NEWCASTER: I'm not on behalf of any client. I'm just an interested party. I have friends in the industry that will be -- that will be witnesses later in the week.

But I thought with my experience I wasn't sure they were going to come forward until they did later. So, that's a good question.

MS. SMITH: Mr. Newcaster, my question is for you. Given the adjustment of density specifications in 2007 and '08 that allowed for a substitution of barite from Morocco and Mexico, as well as availability of Nevada and Indian barite, can domestic industry fully substitute the barite currently it imports from China? Even if costs increase somewhat?

MR. NEWCASTER: No. It's very doubtful. The -- you can see that the -- in the

USGS statistics show that even after the drilling rebound from 2015, 2016, now 2018, the Nevada production has actually continued to decline as imports have come in.

There are reserves in Nevada. There is a capacity at higher price. But it would probably in my estimation go from the three hundred or so thousand tons now too maybe up to six hundred thousand tons.

But the rate that's needed right now in the U.S. drilling at this level is about 2.5 million. So, it would come back a bit.

But it would not replace imports.

MS. PETTIS: I have a question for Mr. Karson. You testified that third country sources of the raw materials you currently import from China are less standardized. Can you elaborate on what that means?

For example, of quality, reliability of supply? And in addition, do you believe that there would be an impact on health and safety?

MR. KARSON: As far as different

standards, I don't think. There's some of them that are actually higher.

For instance, magnesite from Brazil or Turkey is a higher grade usually. But it can't be afforded. It's used for specialty products only.

As far as Guyanese Bauxite compared to Chinese Bauxite, even though it's owned by the Chinese, it's used for special products where they move it with certain phosphoric acid, where this one doesn't use it. So, it's just different lines of use.

As far as health and safety, I don't think the products themselves all fall under the same categories. So, I don't think there would be any difference there.

MS. PETTIS: Okay. Okay, thank you.

CHAIR BUSIS: Mr. Bishop, you can release this panel. Thank you.

MR. BISHOP: We release this panel with our thanks. And we invite the members of Panel 15 to come forward and be seated. As well as the members of Panel 16 to our holding area. Thank you.

MR. BISHOP: Madam Chairman, the first witness on this panel is Win Cramer with JLab Audio.

Mr. Cramer, you have five minutes.

MR. CRAMER: Thank you.

Hello, members. Thank you very much for the opportunity to testify and add to the conversation today surrounding increased tariffs on our products.

My name is Win Cramer, CEO of JLab Audio.

If I come across as a bit nervous it's because I genuinely feel this is the biggest moment in my company's life.

It's heartbreaking to me that the government that is there to protect us is threatening my livelihood and the livelihood of my team members.

First, I'd like to open with a general remark. And, that is to say that I'm humble to be included and surrounded by people that represent the job creating organizations of America.

Make no mistake, these individuals and the organizations that they represent are the reason that the U.S. economy is as strong as it is and the reason U.S.'s unemployment is at an all-time low. It's an extreme privilege to be included with this group.

Believe me, these job creators are more than just that. They're growing careers, rewarding families, creating stability and growth, paying taxes and, ultimately, they're building a foundation for the next generation of entrepreneurs that will keep America great.

It is my opinion that is why so many of us are here this week. My understanding is that this is the largest hearing in USTR history. That in and of itself should tell us how serious this matter is.

While I certainly can't speak to every single tariff code that is suggested to be taxed, if the leaders here are anything like me, they're afraid of what this will mean to not just their business, but the people have entrusted them, their employees.

So, I thank you for listening to us and I'm hopeful that our words and collective voices are heard.

With that, I'd like to provide my specific testimony as it relates to Tariff Code Subheading 8517.62.00 and our reasoning for exclusion.

First, a little bit about JLab. JLab Audio is an American success story. We have built this company with our bare hands, often putting its success ahead of our own families.

We are an award winning designer of personal audio products. Things like ear buds, headphones and bluetooth speakers.

We are the fastest growing company in our category, outpacing industry behemoths like Apple, Sony, and Samsung.

We employ around 40 people in Texas

and California, up from just five employees four years ago. A 700 percent increase with new American jobs.

We sell our products through mass retail and e-tail in the U.S. through partners like Walmart, Target, Best Buy, Amazon, Office Depot and others. Ninety-five percent of our revenue is U.S.-based.

JLab is a value brand. We focus on providing products that are accessible to all Americans, not just those that have hundreds of dollars in their pockets.

We started this company to build products that anyone could afford. We didn't want people to be embarrassed if they couldn't afford the latest Beats by Dre headphones.

In addition to traditional ear buds and headphones, we also have a range of kids headphones which are the top three selling products in the category in America. They limit volume to 85 decibels through the ear cups to protect the child's growing and developing ear drums. We were the first to bring this technology to the masses in the U.S.

It is this headphone that is recommended on back to school lists nationwide.

I designed these headphones myself using my eight-year-old as my guinea pig to make sure the fit was right for a small head.

If you have kids or grandkids, they're likely using our headphones and we're proud to keep them safe.

A 10 to 25 percent tax is being considered on our products imported under Tariff Code 8517.62.00. Not to mince words, but this would be catastrophic to our growing business.

As a value brand, JLab doesn't have the margin to simply absorbs this cost increase. Neither do the retailers in which we sell.

Moreover, we have contractual price commitments with many of our partners that would immediately force our business to do three things.

First, we'd engage in significant cost

cutting by laying off U.S. employees. It would put our business at a disadvantage as compared to larger brands that have multiple products lines.

As an example, Beats by Dre is owned by Apple. All I sell is audio. If they want to sell more smartphones, they can make up margin that way. I don't have that luxury.

This potential tariff punishes small and mid-size businesses that are fighting to become the next Apple.

Ultimately, this will increase the cost of technology to hardworking families who are our bedrock customer.

As it relates to China sourcing, we design all of our products ourselves in California and that the blueprints, for lack of a better term, to our manufacturing partners in China.

In my almost 20 years of doing consumer product business, I've not identified another geography that has the sophistication of the Chinese supply chain, from the plastics to the transducers, to the electronics. The innerconnectivity of the supply chain is unmatched anywhere in the world.

In conclusion, the proposed imposition of tariffs on products that make up 80 percent of our business would be catastrophic. We would be immediately forced to lay off 12 percent of our employees with more to follow.

Moreover, ultimately, the American consumer would be punished with high prices at the registers.

And while I risk sounding unprofessional, we not only respectfully request that Tariff Code 8517.62.00 be removed from the list of products, but I beg you to remove it from the list.

I'm happy to answer any questions you might have.

Thank you.

MR. BISHOP: Thank you, Mr. Cramer.

Our next witness is Richard Firehammer with Universal Electronics, Incorporated.

Mr. Firehammer, you have five minutes.

MR. FIREHAMMER: Good afternoon. My name is Rick Firehammer. I am the Chief Legal Officer of Universal Electronics and I thank you for the opportunity to testify for a second time in front of this committee.

UEI is a publically traded company that began operations in 1987. In 2015, UEI acquired Ecolink Intelligent Technology. Ecolink is based in Carlsbad, California, and has over 20 years of wireless engineering expertise and develops a variety of intelligent wireless security sensing and home automation products.

Ecolink sells these products to professional security service providers through the United States who, in turn, sell those products to residential and commercial customers and provide professional security services to those customers.

Ecolink employs approximately 25 engineers, all located in its Carlsbad location. It has become an industry leader due to the innovation and expertise of these engineers.

U.S. consumers in small to medium size businesses use and rely on Ecolink's security products every day to protect their homes, business and families.

These products are manufactured in China at factories wholly owned and operated by UEI.

Pursuant to the proposed action under Section 301 of the Trade Act, the U.S. government would impose additional duties of the importation of these products into the U.S.

These products are classified under Subheadings 8531.10.0015 and 8517.62.0050.

Imposing additional duties on these products would cause disproportionate and economic harm to U.S. interests, including small and medium-size businesses and consumers.

It would not be practicable of effective to eliminate China's acts, policies or practices and would have a significant negative impact on Ecolink.

First, Ecolink cannot absorb the proposed 10 to 25 percent increase in costs for its security and sensing products. As a result, Ecolink would be forced to pass the additional costs on to customers who, in turn, would pass the additional costs on to their customers in the form of increased up-front equipment costs and monthly subscription fees.

Those end users include individual homeowners and renters, many of whom have low incomes, live in high crime areas and depend on security systems and services to protect their homes and families.

Increases in up-front equipment costs and monthly subscription fees would result in the inability for many U.S. consumers to afford these systems and services.

In addition, there are over 15,000 small and medium size professional home security companies in the U.S. that provide home security services to end users using our products.

Increased equipment costs and

subscription fees would decrease the customer base for these customers, resulting in substantial adverse impact on their businesses.

Second, Ecolink develops and owns all of its intellectual property. As stated earlier, all of the engineers that create, design and develop Ecolink's products are located in the United States.

Ecolink holds approximately 35 U.S. patents also while all of Ecolink's are manufactured in China, they are produced at UEI owned and operated factories.

As such, there has been no misappropriation of Ecolink's intellectual property nor have we seen any counterfeit home security products being supplied from China.

Further, the intellectual property associated with Ecolink's products is not high-end technology and not part of the made in China 2025 program.

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

Third, imposing additional duties on these home security and sensing products will decrease the number of consumers that can afford home security services which would negatively impact Ecolink's operations resulting in the need to terminate its highly paid U.S.-based engineers and move many of those positions outside of the United States.

This reduction in our U.S. creative talent would negatively impact our ability to continue to develop new and innovative products and technologies.

In the end, the additional duties could result in the loss of a company committed to the U.S. home security market.

Finally, moving the operations used to manufacture Ecolink's products outside of China would be a time consuming and cost-prohibitive undertaking.

For example, the tooling necessary to

manufacture the products is not transferrable requiring the need to engineer and retool.

For these reasons, Ecolink respectfully requests that Subheadings 8521.10.0015 and 8517.62.0050 be removed from the list of tariff subheadings subject to the proposed 10 to 25 percent duties.

We appreciate the opportunity to testimony before you today and I look forward to any questions or comments the committee may have.

MR. BISHOP: Thank you, Mr. Firehammer.

Our next witness is Mark Karnes with Cedar Electronics.

Mr. Karnes, you have five minutes.

MR. KARNES: Thank you for the opportunity to come and present our position today.

I'm with Cedar Electronics. My name is Mark Karnes. I'm the Vice President of Strategic Planning.

I'm here representing an American

owned and operated company that has been in business since the 1960s.

We employ over a 190 people in the U.S., Canada, Hong Kong, and UK.

We are the inventor of the CB radio, a favorite of the professional truckers. We like to say it was the first electronic social media system ever invented. And, it's still one of the most widely used products today.

We're also leading shareholder and marine safety VHF radios, professional dash cameras, power inverters for truckers, automotive and heavy truck jump starts and drive alert and information systems, better known as radar detectors under the Cobra and Escort brands.

We design and use contract manufacturing for our products in the U.S. in West Chester, Ohio. We manufacture in the Philippines and China and we have over 30 patents active in all of our categories.

The initial list that came up on the 301 tariffs impacted all of our communication products. These included our CB radios for processional truckers and our marine VHF safety radios for U.S. commercial and consumer boaters.

The new expanded list impacts our professional dash cameras and our commercial power inverters and jump starters that are a favorite of our professional truckers and our integrated driver alert components that are a favorite for our driving enthusiasts.

These are also components that are made and assembled in our plant in Ohio.

You can find our truck -- our products at any truck stop in American, CE retail, e-tail and where ever you buy quality car and truck electronics across America.

The total from both these product lists impacted at the 25 percent tariff have a dramatic effect in over 60 percent of our company's annual revenue.

Five out of the six entire product lists that we build, the categories have been affected.

Only the business that we have in our Philippine plant is immune from the 301 impact because of their origination of manufacturing.

Our concerns on the tariff include the extremely short time to react and plan our manufacturing operations in order to equitably meet our contractual obligations to our trade partners.

In addition to that, the dramatic increases in our product costs that are making us less competitive with our foreign-based competition, the irony of which we compete against Korean and Japanese manufacturers in all of our major categories. And they are the only ones that are immune to the tariff.

Substantial loss of income from our main categories of products and our business will force us to immediately evaluate cutting jobs in the U.S. and in other areas around our manufacturing places and markets.

Until we can find non-Chinese based manufacturing, we will spend the time and energy and money spent with redesigning our products so that we can manufacture them in relocated factories that could have been spent on innovation and value creation for our customers in the automotive, trucking, marine and boating markets in the United States.

Cedar Electronics does not have a major intellectual property challenge from our contract manufacturing operations in China. Some of our products are over 50 years old.

They are analog technology. There is no other place to build them.

We design our products in the U.S. with our engineering resources and we built them in audited contract manufacturing facilities which we oversee.

We sell 80 percent of these products to businesses and consumers in the United States. The U.S. court system has always provided us adequate protection and enforcement of our paten5ts for our products sold here in the United States.

And, many and most of our products are not used in other markets.

We do sell a select group of our products in China and around the world. While the China market is not particularly free or open, we've been able to grow our presence over the past seven years.

We are unsure at this point in time how to plan or invest in this great growth market through the potential for retaliation for our company's products and against our distributors.

Lastly, this also puts our expansion due to retaliatory tariffs and other international markets, especially our large European expansion.

The question may come up, can we find alternate manufacturing outside of China?

I will parrot my colleague at JLab Audio is that there are no other more sophisticated supply chains than in China.

We have not been able to find at this present time any company that we can work with that can make products to our standards to our pricing because of our unique technology.

Our search continues, but we've been at this for a while and I can tell you, it's not going to come up very easily.

We do appeal to you for an exception or simply a closure to the HTS Codes that are covering our products today and to help us remain one of the most American iconic brands in our space.

Thank you.

MR. BISHOP: Thank you, Mr. Karnes.

Our next witness is Mark Kinzie with Logitech, Incorporated.

Mr. Kinzie, you have five minutes.

MR. KINZIE: Thank you.

Good afternoon. My name is Mark Kinzie. I am Director of Worldwide Compliance of Logitech. We appreciate the opportunity to testify at this hearing this afternoon.

As identified in the Federal Register Notice of July 17, 2018, "the USTR requests that comments address specifically whether imposing increased duties on a particular product would be practicable of effective to obtain the elimination of China's acts, policies and practices and whether maintaining or imposing additional duties on a particular product would cause disproportionate economic harm to U.S. interest including consumers."

Logitech has returned here today on List 3 because imposing additional duties on consumer products including computer mice, conference cameras and web cams is not practicable or effective to eliminate the harmful activities identified by the Section 301 investigation.

Moreover, imposing increased duties on these products does bring a disproportionate economic harm to U.S. consumers.

First, and most importantly, Logitech is here today to support the elimination of stated practices in China and to align with the objectives of the Section 301 investigation.

Specifically, Logitech has carefully designed its operations to avoid the harmful activities described in the findings of the Section 301 investigation.

In its day-to-day business operations, Logitech protects its own intellectual property, shields its own proprietary technology and insulates its own product development from technology transfers.

Logitech does this by wholly owning and operating its own factory in China. The company made this investment several decades ago and, since that time, has embraced and re-embraced that factory as the best business practice to protect its intellectual property and proprietary product technology.

For this reason, Logitech has neither suffered from nor contributed to the Chinese government's acts, policies or practices identified in the Section 301 investigation.

The company has not voluntarily transferred technology to the government of China and has not otherwise been compelled to do so.

Logitech has not licensed or been required to license any technologies to Chinese entities and has not been compelled to transfer IP or other technology to Chinese companies or to state actors.

To the contrary, Logitech has an impressive track record of protecting and enforcing its portfolio of IP rights in China. In fact, Logitech's intellectual property and proprietary technology is better protected at its wholly owned factory in China than it would be at a third-party manufacturer in another country.

Indeed, Logitech's intellectual property and proprietary product technology would be less protected if it were to source computer mice, video conference cameras and other products from countries outside of China.

Further, this panel should seize the opportunity to recognize the economic incentive attached to a tariff when it is not imposed on a U.S. business such as Logitech.

When we design our business in such a way to prevent the very acts, policies and practices that create the technology transfer found in your Section 301 investigation, we are already aligned with the objectives of the Section 301 remedy it is intended to achieve.

Logitech accomplishes that now as a matter of best business practices because that is our manufacturing operation now.

What I am here to ask from this panel is that you do not miss the economic incentive attached to the Section 301 tariff when it is not imposed on a U.S. company that organized itself to avoid the harmful activities propagated by the government of China.

The impact of this approach can be as decisive as imposing the tariffs themselves.

Consistent with these principles, we request the USTR to refine its proposed remedy by establishing a transparent exemption. We believe that the USTR has the ability to craft a more precise and effect remedy for the Section 301 violations than the one proposed.

Specifically, we encourage the adoption of an exclusive request mechanism, whereby companies importing goods manufactured by wholly foreign enterprises which have not been subject to voluntary or involuntary technology transfers be removed from the scope of the Section 301 duties.

Such an exemption would be relatively simply to administer. The appropriate agency would determine the documentation sufficient to determine whether a particular Chinese manufacturer is a wholly foreign-owned enterprise and a representative of the U.S. parent company of that wholly foreign-owned enterprise would certify to under penalty of perjury that the company had not been subjected to involuntary transfers in China.

Exemptions would be granted on a manufacture-specific basis. As the manufacturer of imported merchandise has already a required data element in the entry declaration --

CHAIR GRIMBALL: Mr. Kinzie, please conclude.

MR. KINZIE: -- filed with U.S. customs.

CHAIR GRIMBALL: Please conclude.

MR. KINZIE: Oh, okay.

Also, what we would -- what the Federal Register Notice of 2018 requests is show -- we show a nexus between the increased duties placed on the specific products and its practicable or effective result in obtaining the elimination of the suggested acts, policies and practices.

We request that the Subheadings of 8471.60.90, 8517.62.00 be excluded.

We appreciate your consideration and I am available at any time to answer any questions.

MR. BISHOP: Thank you, Mr. Kinzie.

Our next witness is Andy Missan with Fitbit, Incorporated.

Mr. Missan, you have five minutes.

MR. MISSAN: Good afternoon.

My name is Andy Missan, I'm the General Counsel of Fitbit.

I'd like to thank you for the opportunity to testify.

We support the administration's efforts to ensure a level playing field, but we believe that at 25 percent tariff on smart watches and fitness trackers imported from China will harm U.S. workers and consumers, undermine U.S. national security interests, stifle innovation and digital health and fail to advance the Administration's policy objectives.

Therefore, we request that 8517.62.00 be removed from the proposed list.

At the very least, wrist wearable products under this Subheading should be removed.

Fitbit is one of the world's leading wearable brand with more than 80 million devices sold.

Our mission is to give millions of Americans the data, inspiration and guidance they need to improve their health while transforming the healthcare system and reducing healthcare costs.

Fitbit's devices are imported mainly from China, but the heart or our operations is here in the United States. We are headquartered in San Francisco with facilities in Boston, Sand Diego and Issaquah, Washington.

We also maintain our America's logistics hub in Indiana. Seventy-five percent of our over 1,700 employees work here in the U.S.

Our U.S. operations account for over 90 percent of our total operating expenses. And over the last five and half years, Fitbit has invested $918 million in R&D.

We partner with more than 1,500 U.S. companies to improve employee health, work with more than a 100 U.S. health plans to improve health outcomes and lower costs and participate in more than 600 clinical studies focused on disease prevention and management.

Last year, the FDA selected Fitbit as

one of nine companies to participate in its digital health software precertification program.

Imposing tariffs on wearables will harm U.S. retailers, consumers and downstream industries.

Over one-third of wearable shipments in 2018 will occur in the fourth quarter and the overall global market is also expected to grow at over 200 million units shipped in 2022.

The proposed tariffs would make wearables costlier and, in many cases, inaccessible to consumers, making less expensive offerings from Chinese competitors more attractive and allowing them to gain market share.

The resulting lower revenues for the companies that build these devices in the U.S. retailers that sell them could affect millions of American workers.

The proposed 25 percent tariff on wearables undermines U.S. national security interest. The wearables market is highly competitive. In the last year, Huawei and Xiaomi, both Chinese companies, have secured two of the top four positions in worldwide market share.

In particular, Huawei's share grew 147 percent from the first quarter of 2017 to the first of 2018.

These companies operation on razor thin hardware margins in order to achieve a massive user base which will be subject to aggressive modernization efforts, putting sensitive health information at risk of being sold or otherwise transferred to unknown third-parties.

We believe that they would absorb this 25 percent tariff with ease and gain a competitive advantage in the U.S. market.

Wearable devices collect sensitive health data and many other advanced features that include geo location, e-payment and always on microphones.

As the Defense Department learned last

year with Strava, this data, if not protected, can be exploited to gain sensitive movement and location information of the U.S. military.

As wearables incorporate even more advanced features, including cameras, advance health sensors and access control for mass transit systems, smart locks and financial networks, their capacity to collect sensitive data has the potential to exceed that of smartphones.

While Fitbit stores its sensitive data solely on its U.S. servers subject to strict privacy and security safeguards, there is very little preventing the same data collected by Chinese companies from ending up on Chinese servers, accessible on demand by the Chinese government raising serious privacy and national security concerns.

Do we really want this sensitive health, location and financial data of Americans to be stored on Chinese servers?

U.S. policy makers have already raised

alarm bells about Hauwei's opaque connection to the Chinese government and military, leading to congressional proposal to limit the use of their equipment in U.S. infrastructure.

China is believed to be behind recent cyber attacks on the U.S. government and businesses, including the 2015 OPM breach and recent cyber attack against a major U.S. health insurer.

Given these national security risks, we urge you to exclude wearables from the proposed tariffs.

The proposed tariffs will undermine Fitbit's ability to continue investing hundreds of millions of dollars in U.S. based cutting edge R&D. And they would undercut the work we are doing with the nation's leading insurers, research institutes, government agencies, and businesses to improve the health of millions of Americans and drive down healthcare costs.

Fitbit is not subject to any of the Chinese industrial objectives highlighted in the

U.S. GAO report, such as forced technology transfers.

In addition, wearables are not a focus of the Made in China 2025 plan.

It would be costly and time consuming to restructure our supply chain to avoid the detrimental impact of the tariffs.

Under such circumstances, including smart watches and fitness trackers, this advantages a company that was both in the U.S. invest heavily here at home and works to help millions of Americans become healthier.

Thank you.

MR. BISHOP: Thank you, Mr. Missan.

Our next witness is Erik Smithweiss of Pioneer DJ Americas, Incorporated.

Mr. Smithweiss, you have five minutes.

MR. SMITHWEISS: Good afternoon.

My name is Erik Smithweiss. I am a partner in the law firm of Grunfeld, Desiderio, Lebowitz, Silverman & Kestadt and I am here representing Pioneer DJ Americas, Inc. which we can refer to as Pioneer DJA.

Pioneer DJ supports the administration's objective or rectifying the unfair acts, policies and practices found by the U.S. Trade Representative to discriminate and burden the U.S. commerce.

In particular, the forced or pressured transfer of technology and intellectual property rights from the U.S. to Chinese companies.

Pioneer DJ fully supports the objective of ensuring a level playing field in global trade.

Pioneer DJ, nonetheless, urges the USTR not to include HTS Subheading 8471.80.10 on the list of products which additional tariffs may be imposed pursuant to Section 301 of the Trade Act.

The Pioneer DJ products falling in Subheading 8417.80.10 are consumer electronic products. More specifically, they are controllers for DJ systems, DJ being, of course, a disc jockey.

Pioneer DJ's products are not associated with the four categories of China's acts, policies and practices that the USTR found to be unreasonable and discriminatory.

In addition, Pioneer's products are not within one of the ten strategic industries that the USTR concluded benefit from China's Made in China 2025 industrial policy.

Consequently, imposition of the duties will be not be practicable or effective in eliminating the four Chinese acts, policies and practices.

Pioneer DJ America is a U.S. subsidiary of Pioneer DJ Corporation, a Japanese company that recently is indirectly majority owned by a U.S. investment firm.

Pioneer DJ, which was formed from Pioneer Electronics in 2014 exclusively develops, builds and sells industry leading DJ equipment.

It is a global company with operations throughout the United States and around the world. Much of the company's success in the

United States is its ability to deliver high quality DJ equipment to U.S. consumers at affordable prices.

Pioneer DJ Corporation outsources the manufacturing of the DJ controllers, referencing Subheading 8471.80.10, to manufacturers in China.

Pioneer DJ Corporation in Japan owns all the intellectual property rights to this technology. The technology in the IP is fully Japanese and there is no U.S. technology involved in the development and production of these controllers or any of the other company's products for that matter.

Neither the Japanese parent corporation nor Pioneer DJ America have ever been the target of acquisition attempts by Chinese companies or cyber theft.

As the focus of this Section 301 proceeding is the forced or pressured transfer of U.S. technology from U.S. companies and the acquisition by Chinese companies of cutting edge technology and intellectual property through the acquisition of U.S. companies, there is no connection between Pioneer DJ's products and the harm that the USTR needs to remedy.

This is the primary criteria for determining whether tariffs should be implemented on products such as these DJ controllers from China. And in this industry, these harmful acts, policies and practices of China simply do not occur.

The imposition of duties on these products will clearly cause disproportionate harm to U.S. economic interests.

Pioneer DJ America supplies roughly two-thirds of all DJ equipment in the U.S. market. Its customers range from aspiring artists to recording studios to night clubs.

A 25 percent or even 10 percent additional costs added to these products, many such artists would be unable to afford the equipment they need for their livelihood in the music industry.

Pioneer DJ Corp cannot readily find

alternative sources of production for the controller models that are manufactured in China if these tariffs are imposed.

These are not commodity products that can be easily sourced from various suppliers. Every product has individualized specifications and must be produced at the highest level of quantity.

The company estimates that it would cost over $2 million per model to start up production for these products at a new manufacturer outside of China and it roughly take a minimum of six months to scale up production.

Many of the companies and their representatives testifying before you this week are solely American. Their stories are compelling and faithful testaments to the collateral damage being done to our many industries.

Just as compelling are the stories of close trading partners and allies around the world, such as Japan, with Pioneer DJ representing a company with a long history of employing Americans and engaging in fair trade practices in this country.

These are not low paying jobs, but rather marketing, supply chain, product planning, finance, sales jobs. These are jobs that represent the realities of the current framework of international trade and consumer electronic industry that has evolved over decades.

Imposing the tariffs of the DJ equipment, which happen to be manufactured in China because other producers cannot handle the capacity runs the risk of causing the damage which we actually seek to avoid.

Consumer electronics is a global industry, it's a global on and even U.S. branded products are typically made offshore.

Pioneer DJ urges this committee to eliminate Subheading 8471.80.10 from the list of proposed additional duties.

Thank you.

MR. BISHOP: Thank you, Mr.

Smithweiss.

Our next witness is Craig Updyke of the National Electrical Manufacturers Association.

Mr. Updyke, you have five minutes.

MR. UPDYKE: Thank you, Mr. Secretary.

Good afternoon, members of the committee. I provide the following remarks on behalf of the National Electrical Manufacturers Association, NEMA, on the proposed modification of further action pursuant to Section 301 of the Trade Act of 1974 to address China's acts, policies, and practices related to technology transfer, intellectual property and innovation.

My name is Craig Updyke and I serve as NEMA's Director for Trade and Commercial Affairs.

NEMA collectively represents nearly 350 electrical equipment and medical imaging manufacturers that make safe, reliable, and efficient products and systems.

Our combined industries account for some 360,000 jobs in more than 7,000 facilities covering every state in the Union.

Our industry produces 106 billion in shipments of electrical equipment and medical imaging technologies per year with 36 billion in exports -- 36 billion U.S. dollars in exports.

As stated at the two previous public hearings on proposals of USTR in this matter, NEMA shares the USTR concerns regarding China's industrial policies and intellectual property practices.

U.S. electrical and medical imaging manufacturers continue to work -- support a comprehensive approach to international trade that results in free and open global markets.

The outcomes of discussions between China and the United States, as well as other countries and trade groups with whom the U.S. is engaged should assure a more level playing field through the application of clear, binding and enforceable trade rules and compliance with international norms of intellectual property protection.

While some NEMA member companies manufacture their own products in their own factories in China, many others sourced finished goods as well and components from contractual partners in China.

In particular, many companies source components from China into the U.S. to support their domestic manufacturing operations.

At present, many U.S. companies are paying 25 percent tariffs on components imported from China, components that they design specifically for their own products and tested and certified to their own quality standards.

These companies must compete with others, including foreign manufacturers of finished goods who do not have to pay these tariffs or devote scarce resources and significant time to finding and qualifying alternative suppliers.

Twenty-five percent tariffs implemented July 6th are materially injuring the global competitiveness of many of our member companies and their U.S. manufacturing operations with implications for their employees and communities.

The 25 percent tariff scheduled to be implemented August 23rd will expand the economic harm. Of the $50 billion in products targeted in the first two tranches of tariffs, approximately $10 billion are within or adjacent to NEMA's scope.

Collectively, a large portion of the $2.5 billion in tariffs that are in place or almost in place, must be earmarked to pay tariffs and -- the $2.5 billion must be earmarked to pay tariffs and be diverted away from other activities including hiring and training new workers, conducting research and development activities or finding new markets.

In order to lower or avoid this tariff burden in the future, companies must undertake long and costly processes to find and qualify new suppliers.

The only constants for U.S.

manufactures are increasing material input costs, international competition and the uncertainty arising from U.S. and other governments' trade actions.

For example, China has implemented or proposed its own 25 percent tariffs on many NEMA member exports, effectively precluding our company's participation in a challenging but growing market.

The proposal under consideration today involves placing 10 or 25 percent tariffs on additional product types imported from China and within or adjacent to NEMA's scope.

Affected NEMA member products include, but are not limited to the following, single phase electric motors, certain electrical transformers, consumer type single use batteries, consumer type smoke and carbon monoxide detectors, electrical plugs and sockets, fluorescent lighting ballasts, consumer type halogen light bulbs, lighting fixtures and many components thereof and electrical insulating materials for high voltage power lines.

And illustrative list of the targeted products have direct and indirect interest NEMA is included below and will be in our formal written comments to be filed with USTR.

If implemented, these additional tariffs would place a 25 percent tax or a 10 percent on each and every targeted Chinese made product or component, place U.S. manufacturing operations that source targeted products from China at a competitive disadvantage relative to their foreign and certain domestic competitors who are not covered by the tariffs, increase the tax burden on U.S. manufacturing operations that already face tariffs on other imports from China or on steel and/or aluminum and increase the likelihood of the threatened retaliatory actions by China that could further materially disadvantage our member companies in the Chinese and global markets.

Specifically, if the tariffs are intended to bring China to negotiations, we ask when can industry expect those negotiations to begin in earnest? We hope the talks scheduled for later this week will chart a path to success.

If not, we look forward to the administration's careful consideration of and publicized time line for alternative measures to bring about change in Beijing's apparently entrenched strategic industrial and IP policies.

Thank you.

MR. BISHOP: Thank you, Mr. Updyke.

Our final witness on this panel is Tom Vining with the National Elevator Industry, Incorporated.

Mr. Vining, you have five minutes.

MR. VINING: Good afternoon.

My name is Tom Vining. I'm the president of Otis Elevator Americas and the President of the National Elevator Industry, Inc. or NEII.

I am appearing today in my capacity as President of NEII. NEII is the premier U.S. trade association representing the global manufacturer leaders in the building transportation industry.

NEII's members include Fujitec America, KONE, Mitsubishi Electric U.S., Otis Elevator, Schindler Elevator, thyssenkrupp Elevator and other companies.

Collectively, NEII member companies operate in all 50 states and over 200 countries. Directly, NEII members employ around 50,000 U.S. workers.

NEII commends and support USTR's efforts to ensure fair trade practices and protect intellectual property.

Also, I want to thank the committee for the opportunity to discuss the detrimental impact that the proposed 10 to 25 percent duties will have on NEII companies, our U.S. customers in the construction, real estate industries and U.S. workers.

The proposed product list includes 15 HTSUS subheadings of relevance to our companies covering elevators and escalators and components such as key pads and touch screens, controllers and printed circuit boards.

A full list of relevant HTSUS subheadings is attached to the written version on my statement.

The earlier rounds of duty increases that USTR has imposed in this Section 301 investigation are already adversely affecting NEII companies.

Additional duties will have negative impacts as follows, first, the proposed additional duties will undercut the international competitiveness of NEII companies who manufacture products in the United States.

Foreign competitors who manufacture outside the United States will benefit from this action, as they will neither have to absorb nor pass on to customers the higher costs created by the additional tariffs.

This loss of competitiveness will have an impact on the jobs of U.S. workers who manufacturer elevators and escalators, undermining efforts that NEII companies have made to bring and maintain good paying jobs in the United States.

Second, the increased costs will impact the construction industry. In many cases, the cost of building transportation products are established when new buildings are designed and financed and those higher costs will have to be absorbed by NEII companies or passed on to U.S. customers of all sizes, private and public.

Third, the proposed additional duties will increase the cost of servicing building transportation products.

Elevators and escalators are a significant expense for building owners consisting of both the initial acquisition costs and costs of ongoing services and parts through an approximately 25 year lifecycle.

We expect the commercial and residential building owners will pass along these increased costs to companies and individuals that purchase or lease in those buildings.

Fourth, we expect the imposition of additional duties to hinder building owners' ability to modernize their building transportation products, which is continually done to improve their operation and safety.

With the higher costs, building owners may choose to defer important and even necessary services or upgrades critical to the quality, reliability and safety of building transportation products.

Fifth, NEII companies will be unable to readily rearrange their supply chains to avoid sourcing products from companies in China.

One of the unique aspects of our industry is that products like elevators and escalators have an extremely demanding qualification and safety certification requirements.

It can take years for NEII companies to qualify alternative suppliers, including suppliers, whether domestic or outside the United States who are currently manufacturing or have the capability to manufacture similar parts.

Finally, building transportation products covered by the additional tariffs are unrelated to any of the ten high technology sectors the Chinese government is seeking to promote through its Made in China 2025 program.

The proposed additional duties will only injure NEII companies and our U.S. customers, suppliers and workers.

We respectfully ask that you not impose the proposed additional duties on our products.

Thank you.

MR. BISHOP: Thank you, Mr. Vining.

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

CHAIR GRIMBALL: Thank you for your testimony, we'll begin with questions.

MS. HOWE: My question is for Mr. Cramer.

In your written submission, you note that your competitors will be able to choose to source their manufacturing from other locations such as Taiwan or Mexico.

I was wondering if you could discuss for us whether this is an option for JLab?, understanding that you noted that it would be, you know, some time and prices, but if you could just discuss what that process would look like and if it's at all an option for you?

MR. CRAMER: Sure. Taiwan and Mexico two of my competitors have owned facilities there. There's no third-party contract manufacturers that I have available to me.

CHAIR GRIMBALL: Follow up question for you and this is with respect to the 85 decibel volume limitation functionality --

MR. CRAMER: Yes, ma'am?

CHAIR GRIMBALL: -- that you created I believe you said.

Do you have any concerns with respect to IP theft related to that particular function?

MR. CRAMER: No, it's a decibel suppression technology. It's pretty common.

CHAIR GRIMBALL: Okay.

MR. CRAMER: We just found out how to make it for kids. We followed the toy standard which is 85 decibels. You have like a fire truck with a siren, it has to be under 85 decibels. We followed that same standard for kids.

CHAIR GRIMBALL: Okay, thank you.

MR. CRAMER: You're welcome.

MR. HARDMAN: Good afternoon, Mr. Firehammer.

You know, a lot of these questions focused on whether or not you can get products elsewhere and at what cost and what time line and that really is my question for you. Can you get stuff somewhere else and what's your timeline and your costs associated with that?

MR. FIREHAMMER: Certainly. Prior to us acquiring Ecolink in 2015, Ecolink did source its technologies at a higher cost. So, as a result of that, they had less innovation.

In the three years, two and a half years since we've owned them, of the 35 patents that they own, 20 of them are because of our acquisition which reduced costs by moving the manufacturing facilities from a contract manufacturer to our owned operations in China.

And, as a result of that, allowed for greater innovation.

We are small, we are dwarfed as compared to our competitors. Honeywell is number one competitor ours. They have operations -- owned operations in Mexico.

Second competitor is in Taiwan with owned operations.

For us to move full capacity, it would be probably two years to get full capacity for these products in order to remain at a price competitive advantage, or not advantage but price competitive.

So, in that time period, we would lose possible sales as we were trying to wrap up. So, that would be devastating, I think, for our company during that time period.

MR. HARDMAN: And a follow up, I think

you and a few others, at least two others, have mentioned that you have wholly owned manufacturing facilities. And, I'm wondering what pushed you to do that?

Is it that you were trying to protect your own intellectual property or what's the business decision behind that, if you don't mind?

MR. FIREHAMMER: That was the driver, protecting our intellectual property. Because, if we keep it in house, we don't have to share it with contract manufacturers.

But, also, very price competitive. It is a price competitive industry that we're in and the Universe Electronics, Inc., parent sells remote controls and that's a very competitive priced type product.

So, we saw in 2006 and '07 when we acquired the factories in China, that this would allow us to maintain the cost structure that would keep us competitive.

MR. HARDMAN: Thank you.

MR. MCGUIRE: Good afternoon, for Mr.

Karnes.

So, you testified that some portion of your products are manufactured in the United States and the Philippines and that you have another portion that are manufactured in China and you said it would be difficult to source those Chinese products from other alternative locations.

Could you expand a bit more on what challenges you would face in that category and kind of what time you would face in shifting production.

CHAIR GRIMBALL: I'm sorry, before you answer that, could you also clarify whether there are different types of projects, meaning products -- excuse me, made in your Chinese facility versus your facilities in the Philippines? I didn't quite understand that, so if you could include that.

MR. KARNES: Yes, I will. Our manufacturing plant in the Philippines is a 100 percent dedicated towards our product of radar detectors.

So, their skill and their knowledge base, we do all of the design and engineering and they provide us the manufacturing for all brands of our radar detectors.

To answer the question, I'll specifically go to dash cameras which is listed under the list three. Dash cameras, the largest selling or the highest volume area in terms of markets for dash cameras are the Chinese market and the Russian market.

Most of the dash camera technology actually comes from China. There are Taiwanese and there are also Korean companies that compete in that space where their plants are also in China.

So, the ecosystem that exists for us to go in and be able to build to scale the types of products that we sell into the professional trucking market, and to just to kind of give an overview to that is, those truck drivers are driving 24/7 across America. They'll put a million miles on their vehicles in three years.

So, the types of products we have to make have to be extremely well built, reliable, heat-resistant, cold-resistant, and vibration resistant.

So, we have to go to the type of company who can build the quality and build the technology and also build the pricing to be able to provide a value for an independent professional trucker.

That really limits our ability to go source it in other places where their unique skills or their ecosystem does not exist. We -- and believe me, third -- going for second sourcing and working different alternate sources is actually a sourcing strategy of ours.

And there are just not a lot of places that you can find these sorts of products that can build to the quality and capacity.

I'll duplicate that with power inverters, jump starters, they are native places in technology areas in China that build them. We can't find alternate sources that have that skill, those parts, the ecosystem to build it and to build at price points which we can sell into the market which is the professional trucking market.

MS. SMITH: Good afternoon, Mr. Kinzie. My question to you, you testified that Logitech recommends USTR establish a product exclusion process to exclude products made by wholly foreign-owned enterprises in China.

How would your proposal mesh with the fact that companies and sectors selected by China have been required by China to enter into joint ventures?

MR. KINZIE: If I understand your question correctly, the companies that you're describing would not be eligible for that exclusion.

The exclusion that I am describing in the prepared remarks is one in which a wholly foreign-owned enterprise would be eligible, identified upon entry through U.S. Customs and flagged at that point, both the information about wholly foreign-owned enterprises is public, as well as the requirement to declare who the manufacturer is at the point of entry during customs clearance.

MS. SMITH: Okay, thank you.

MR. SECOR: My question is for Mr. Missan.

Along the lines of the questioning with some of the other panelists, have you investigated manufacturing in a country other than China? And, what sort of ownership do you have over your operations in China?

MR. MISSAN: Yes, so, we have looked at the potential to manufacture in other jurisdictions.

The product category that we're manufacturing has some unique characteristics. It's characterized by high volume manufacturing and it's very precision oriented and it's a very small form factor.

So, in terms of the U.S. market, that

capacity just does not exist at all. There's no options here in the U.S.

We have looked at other territories and, by and large, each of the territories that we've examined has much higher labor costs. They lack the know-how that the Chinese market has. And, we've found that the particular know-how in the manufacturing processes that have been developed in China over the last 40 years are very much applicable to our unique industry with the small form factor precision manufacturing and high volume.

And, that, based on our initial analysis, it would take many years and many millions of dollars to replicate that in full in territories outside of China.

And as far as our relationship, we have contract manufacturing relationships with our partners in China.

I just wanted to reiterate that we have not -- we've never been asked and have never found any risk at all to our IP. We've never been asked to transfer IP. There's been no mentioned of any forced technology transfer.

And, in fact, we have a lot of control inside the contract manufacturer where we can apply IP safeguards, for example, to our firmware and software. We have them in encrypted servers and encrypted computers that only our employees have access to so no one could even have access to that IP even if they had a bad intent because of the IP protections that we deploy.

And notwithstanding the fact that we don't own the factory, but we're able to deploy similar controls as if it was wholly owned.

MR. CONCEICAO: This is question is for Mr. Smithweiss.

You stated that -- in your testimony, you described the difficulty and expense of establishing new production facilities for the DJ controllers.

Are there any domestic manufactures of products of this nature?

MR. SMITHWEISS: My understanding is

there is no domestic production at all of these types of products.

MR. CONCEICAO: And as a follow up, you said Pioneer supplies two-thirds of the DJ equipment to the United States?

MR. SMITHWEISS: My understanding is that its sales in the United States market, its brand, is approximately two-thirds.

MR. CONCEICAO: Okay. So, would you know who handles the other third?

MR. SMITHWEISS: I wish I did, I don't. Sorry.

MR. CONCEICAO: Fair enough, thank you.

MS. PETTIS: I have a question for Mr. Updyke.

You discuss the tariff action that took effect on July 6th. And since the duties went into effect, do you have any information on whether your members have shifted their supply chains or seen any changes in consumer behaviors?

MR. UPDYKE: Thank you for the

question.

We are collecting that type of information now. I don't have anything that I can readily share today, but we will make an effort to include some of that information in our final written comments by September 6th.

MS. PETTIS: Thank you, thank you.

CHAIR GRIMBALL: Okay. This question is for Mr. Vining.

I am a commuter and a mall shopper and I've seen my fair share of escalators that are not in service.

So, my question is about serviceability of escalators.

So, I take it from your testimony that perhaps some of those larger components of escalators that we see when we're riding escalators are the types of products that are imported from China.

My question is about those sort of inner components. Are any of those inner components in general available from sources in the United States?

Or is there, you know, at least a market where, in the United States, where those components could be repaired without having to seek replacement parts from sources in China?

MR. VINING: Yes, so there's a multi-answered question. I'm going to answer to that.

But, you know, I'd say some components are available from domestic suppliers and some are not, depending on the type of equipment, specification, type of part and so it just varies across the board.

So, there's a yes, yes, that it just depends on the component and part.

CHAIR GRIMBALL: I know that's hard to answer --

MR. VINING: And some of them are only available through a Chinese or international supplier.

CHAIR GRIMBALL: Do you have an idea of the type of components that are available?

MR. VINING: We could get that

information for you --

CHAIR GRIMBALL: Okay, that'd be great.

MR. VINING: -- when --

CHAIR GRIMBALL: Thank you.

MR. VINING: Okay.

MR. BISHOP: We release this panel with our thanks and we invite Panel 16, our final panel this evening, to please come forward and be seated.

(Pause)

Will the room please come to order?

Mr. Chairman, our first witness on this panel is Leigh Avsec of MasterBrand Cabinets, Incorporated.

Ms. Avsec, you have five minutes.

MS. AVSEC: Good evening. My name is Leigh Avsec. I am the General Counsel for MasterBrand Cabinets, the largest residential cabinet manufacturer with $2.5 billion in 2017 sales, manufacturing presence in 13 states and 11,000 U.S. employees.

On behalf of those 11,000 U.S. employees, I am here to ask you to remove several tariff codes from the final retaliation list.

These cover component wooden products that our employees use every day in our 18 U.S. factories to build our beautiful cabinets which are sold all across America at every price point.

First and foremost, we are a proud U.S. manufacturer. We rely on a global supply chain so that our 11,000 employees, many of whom live in rural areas where our plants are the best and often times, only jobs, can take those components and turn them into cabinets.

Specifically, I am here to request the plywood that comes in under various codes under 4412, plus vanities and components coming in under codes under 9403 should not be subject to any tariffs.

Today, I hope to help you understand why we source these products from China and why they are so important to our U.S. manufacturing process.

It's not just a simple matter of price. We source these products from China because China is the only place that has the capacity and the skilled labor that we require.

For example, plywood. All plywood is not the same. The plywood we buy from the U.S. is fundamentally different from the plywood that we buy in China. To keep it very simple, Chinese plywood has thinner veneers. And, this thinness actually makes it better suited for the applications we use it in.

But while that thinness is an important attribute to the manufacturing process, it means that the plywood is so delicate that it has to be worked by hand rather than by machine in a process that really isn't found outside of China.

We looked into sourcing these products in the United States. We can't. U.S. producers don't have the capacity or, frankly, the desire to make this product.

Other countries don't quite have the

skilled labor or the equipment.

The fact is, the product best suited for our manufacturing needs comes from China.

The same is true for the wooden components we source from -- we import from China. It's more than a matter of price, we source from the best suppliers.

We have long term relationships with these suppliers and to change our supply chain would be extremely onerous. It could take us years, best cast scenario with our teams working around the clock.

Why would it be so hard? Well, remember that our products are mere commodities. They're cabinets. And if you've ever redone your kitchen, you know how important a cabinet is. It's the heart of the home.

And as such, every cabinet has to be perfect. It has to have the right color, the right size, the right finish. You can't have any defects.

Our suppliers have to be able to meet

our precise technical standards for finish size and quality.

It would be difficult and expensive to find new suppliers outside of China that could perform the highly skilled processes involved in producing components that meets both our aesthetic and technical requirements.

There's one other reason that resourcing our supply chain would be burdensome. And, that's because the wooden components we use are actually very highly regulated.

And we at MBCI, we take compliance very seriously. We require full compliance with Lacey Act, state legislation on formaldehyde emissions and the new federal TSCA standards.

We have longstanding relationships with suppliers that we trust. But, more importantly, that we have appropriately audited and even sometimes visited to ensure that these comply -- that they comply with these regulations and standards.

The cabinet industry has already been

hit hard by the imposition of the antidumping tariff of hardwood plywood of nearly 200 percent that went into effect last year.

The impact has actually been to penalize the rule abiding U.S. manufacturers by giving a competitive advantage to the many importers that, frankly, break the law.

If our components were to take another hit, it would only hurt U.S. manufacturers and could give an unintended benefit to foreign producers.

Our 11,000 workers just want to be able to manufacture a quality product right here in the United States. There's no intellectual property theft associated with the components we import from China.

These additional tariffs could only further tilt the playing field in favor of overseas competitors with no real discernable benefit to U.S. companies, employees or consumers.

For these reasons, and again, on

behalf of our 11,000 American workers, we ask that you remove the codes that we have listed.

Thank you.

MR. BISHOP: Thank you, Ms. Avsec.

Our next witness is Peter Berkman with Homewerks Worldwide, LLC.

Mr. Berkman, you have five minutes.

MR. BERKMAN: Thank you.

Members of the committee, I am Peter Berkman, CEO of Homewerks Worldwide, LLC. We are a 60-person firm started 12 years ago located in a suburb outside of Chicago.

I have been in the import distribution business for 30 years and I'm here today to discuss the reasons that the USTR should remove certain plumbing products imported by Homewerks.

We distribute opening price point and commodity plumbing and bathroom related products to large retailers and distributors who resell to the public.

The HTS subheading at issue is for brass faucets and brass plumbing valves that we import mainly from China, from design, engineering, tooling, sand casing, forging, die casting, zinc injection, plastic injection, machining, finishing, polishing, assembly and testing producing faucets and valves is a complicated process.

All of these skills are difficult to create without millions of dollars of investments and many years of building the Greenfield production facility to get it up and running.

A full assortment of faucets and plumbing valves includes thousands of different items with over 10,000 molds required to manufacture them in the different product types I just mentioned.

To set up this varied manufacturing process and all the tooling required would take investments of millions of dollars in multiple -- and multiple years.

The existing faucet and valve manufacturers outside of China, there are some, do not have the capacity.

In fact, just last week, I sent a Homewerks full-time associate to Indonesia to investigate alternative sources.

She visited three existing valve factories and one faucet factory in Indonesia. Not one of them could meet our product specification or capacity needs.

Two weeks ago, I personally reached out to a valve manufacturer who Homewerks is currently using in Italy for a more high-end valve, explained the tariff situation to her and asked if her company was willing to manufacture the low-end Chinese commodity valves.

After some talk about quantities, which are quite high, she refused to provide us with a quotation. I pressed her further that wouldn't this be a great investment chance for her company, but we were turned down due to the current factory's equipment. It takes different type of equipment to make the low-pressure opening price point commodity valves.

Based on my 30 years of experience and

these two recent examples, I do not believe that existing capacity exists to supply U.S. demand outside of China.

Moreover, I do not believe we can convince and existing supplier or a new greenfield investor to build capacity outside of China because it would take millions and millions of dollars and multiple years and, hopefully, this tariff dispute could be over soon and then the production would move back to China where we, Homewerks, would be at a disadvantage due to our commitment in the other country.

If either 10 or 25 percent duties are imposed, there will be two adverse economic consequences.

First, we will attempt to pass the cost of additional tariffs along in the form of a price increase to our customers who are the large retailers.

They will likely raise the price. As a matter of fact, they will raise the prices based on one of your questions from earlier when we had this in wave one, we passed the price increase through and they raised the retail price.

So, what this means is it will impact, likely impact, the lower income customers buying our opening price point and commodity faucets and valves and then they are most likely not to do a project. So, projects start with a faucet or a valve and then you fix the whole bathroom.

You buy a cabinet, you buy lighting, you buy flooring, you buy hardware. See, we're in this together -- we just met.

You buy the whole project together. So, the whole project, all of a sudden, doesn't get started and it hurts the economy, really hurts the economy.

In conclusion, Homewerks believes there is no current alternative to sourcing these opening price point in commodity faucets and pluming valves except from China.

No country has sufficient capacity to supply the U.S. demand for faucets and plumbing valves.

I believe it would a multi-year process costing millions of dollars to add necessary capacity outside the U.S.

Not only would it affect American consumers, but it would affect the growth of Homewerks and our 60 U.S. employees.

Thank you for providing me the opportunity to testify. I'm happy to answer any questions at the end of the panel.

MR. BISHOP: Thank you, Mr. Berkman.

Our next witness is Brett Bradshaw of International Housewares Association.

Mr. Bradshaw, you have five minutes.

MR. BRADSHAW: Good afternoon. And, thank you all for holding this hearing and for your willingness to take into consideration our sincere concerns and feedback about the proposed tariffs.

I'm Brett Bradshaw and I'm testifying on behalf of Bradshaw Home, Incorporated, and the International Housewares Association.

I currently serve as the Co-President of Bradshaw Home and the Chairman of the Board for the International Housewares Association, a not-for-profit trade association representing more than 1,400 member organizations in the housewares industry.

I appreciate the opportunity to appear before you and express concerns for the duties proposed under Section 301 and to request that the USTR remove the tariff codes detailed in my submitted written testimony.

Bradshaw Home is a privately owned company back in California my great grandfather started back in 1905. We are the largest kitchen gadget and cleaning product supplier in the U.S., shipping over 250 million units yearly with over 440 U.S. employees.

Imposing a 25 percent tariff on the proposed consumer products would not only be very detrimental to our business, but also to the already struggling retail sector that had over 7,000 store closures in 2017, a 200 percent increase from the previous year.

Higher retail prices will reduce the number of units sold, resulting in a net revenue decrease for retailers, thus, accelerating the rate of store closures.

Neither our business nor that of our retail partners have the margin to absorb even a small portion of this increase in costs.

Our items included on the tariff list are built in approximately 130 different manufacturing facilities requiring a wide array of processes and capabilities. There are no alternative sources for the supply of these products.

More importantly, there are no sources in China or elsewhere that are due to open in the near future either. The majority of products within the proposed scope of the tariffs would require a greenfield project taking two years or more to build after breaking ground. This estimate does not include preliminary work required that can take 6 to 12 additional months.

With years of efficiency gains within our supply chain and aggressive competition, sufficient margin does not exist in the retail supply chain to absorb a 25 percent cost increase. The increase will, therefore, be passed on to consumers.

The low-tech and low value nature of these basic products for the home means they're built in small factories in China who only produce consumer household products.

The volumes in each category in each factory are usually low and the technology so aged that high tech factories in the U.S. aren't appropriate for these goods.

This policy, if enacted, will have a broad impact across all levels of consumers. It will, however, have a disparate impact on lower income households that rely on our products in their daily activities to clean their homes and safely cook their food.

For example, let's consider can openers. Recent data published by the National

Grocers Association show that canned fruits and vegetables represent a larger percentage of food costs for lower income consumers.

The cost of this tariff will be felt most by those consumer that can least afford the increase.

Finally, I'm most concerned about our 440 U.S.-based employees and their families. Our data reconfirmed in real world trends over the years shows that unit volume falls as retail prices rise.

Many of the products on the list I've submitted to the committee are sold at retail prices below $5. At that level, a 25 percent rise in retail price equates to a similar volume decline.

Twenty to 30 percent volume reduction as a result of the tariffs will have a negative impact to our business and reduce our ability to compete globally.

This reduction in sales and income will afford us fewer resources to cover overhead and may potentially lead to job losses at our distribution center and throughout our sales, marketing and product development staff.

We've been fortunate that our hard work has led to success in growth and that's allowed us to invest in our U.S. operations, hire more staff and compete in both domestic and international markets.

If these tariffs are enacted, that momentum will be completely reversed, making us less competitive and stifle our ability to invest in people and products.

In conclusion, we believe that imposing a 25 percent tariff on these low technology goods will not incentivize China to change its acts, policies and practices, it will only make basic necessities more expensive to U.S. consumers and harm our company and many others like it in the home and housewares industry.

As I mentioned earlier, I also appear at this hearing representing over 1,400 other manufactures in the industry as the Chairman of the Board for the IHA. We certainly support the effort to eliminate China's unfair trading practices, but feel the current path will lead to job losses and reduce our competitiveness in the global marketplace.

As an association we maintain a free and fair trade and anti-tariff position. We strongly encourage the USTR to remove the 60 submitted HTSUS codes from the proposed supplemental list.

Thank you.

MR. BISHOP: Thank you, Mr. Bradshaw.

Our next is Lee Berger with Broan-NuTone, LLC.

Mr. Berger, you have five minutes.

MR. BERGER: Good afternoon. My name is Lee Berger and I am the general counsel of Broan-NuTone, LLC. Thank you for the opportunity to testify today.

I would like to highlight a few of the reasons why the proposed tariffs will have a significant and negative impact on our company without contributing to the elimination of China's trade practices described in Section 301 determination.

Broan is a U.S. based company headquartered in Hartford, Wisconsin. Our company is a global leader in resident ventilation and air indoor quality.

We employ approximately 1,000 people in the U.S. across three states, with most of our domestic workforce based in Wisconsin.

Broan is the U.S. market share leader in the resident ventilation industry and is the only company among its major competitors to manufacture its primary produce lines in the United States.

These product lines, bath fans and range hoods, account for approximately 70 percent of our global revenues and are the products hardest hit by the proposed tariffs.

Though Broan supports the administration's efforts to eliminate China's unreasonable and discriminatory trade practices, we submit that the proposed tariffs are not narrowly tailored to achieve these goals and will cause disproportionate economic harm to Broan.

As a U.S. manufacturer and generator of jobs, we believe that the economic hard that will result from the proposed tariffs far exceeds any possible benefit they may achieve.

As such, Broan requests that USTR remove from the proposed list components that are import for use in the U.S. manufacturing.

Most of the items subject to the proposed tariffs and imported by Broan are components the company uses to manufacture finished goods in the United States.

These are critical to our business and support our creation of U.S. jobs and revenue.

We urge USTR to reconsider, in particular, the imposition of additional tariffs on low-power motors classified on Subheadings 8501.40.20 and 8501.40.40.

These motors are key components in

Broan's U.S. manufacturing and our company relies on them to support our largest revenue generating products.

The reality is that these motors are not available from alternative sources, domestically or otherwise, in sufficient volumes and are not the type of strategically important technology that drives China's unreasonable and discriminatory trade practices.

In the short term, Broan will no choice but to continue to import motors and other inputs from China and these additional -- the additional tariffs will not have the desired effect on Chinese policy makers.

Broan has thoroughly investigated the availability of low power motors from alternate sources.

The current volumes available in the United States are far below Broan's requirements which amount to millions of motors annually.

Even if our company could identify viable alternative supplies in third countries, doing so would require substantial investment that is impractical in the short term.

It would involve long product qualification processes to ensure high quality and even longer lead times during increase production capacity.

During that time, the imposition of an additional 10 to 25 percent tariff on the required manufacturing inputs will result in a number of disproportionately harmful economic consequences including increased consumer prices, lost market share to foreign competitors and financial losses accruing in the United States.

We note that the risk of loss market share is particularly great since Broan also uses steel for its manufacturing operations. The increased cost from the combination of these tariffs are costs that our major competitors will not experience because they are importing finished goods that are not subject to either set of duties.

Thus, the proposed remedy will harm

Broan and be a boon to our foreign competitors that do not invest in U.S. jobs and manufacturing.

Finally, we want to highlight the fact that the additional tariffs on many of these manufacturing inputs will not be affective in bringing about the elimination of China's unreasonable and discriminatory trade practices.

As USTR itself has noted, these practices are fueled by China's goal to become the high-tech leader in global manufacturing.

Manufacturing inputs like low power motors are precisely the type of product that should not be targeted by the tariffs. They represent old technology and imposing tariffs on these products will not put the pressure on Chinese policy makers who seek to move China away from the manufacture of products like these in favor of more advanced technologies.

For these reasons, we request the creation of a categorical exemption for articles imported for further manufacturing or, in the alternative, the removal of subheadings 8501.40.20 and 8501.40.40 from the list of tariff provisions subject to the tariffs.

This concludes my prepared testimony and I am pleased to answer any questions the committee may have.

MR. BISHOP: Thank you, Mr. Berger.

Our next witness is Mike DiStefano of Continental Materials, Incorporated.

MR. DiSTEFANO: Good afternoon. My name is Michael DiStefano and I am the Executive Vice President and Chief Operating Officer of Continental Materials. We're a U.S. importer and distributors of nails including roofing nails for used in construction and the industrial market in the U.S.

CMI was founded in 1958 in Pennsylvania and we are actually celebrating our 60th year anniversary in 2018. Our customer base is located throughout the United States and we employ 20 salaried full-time employees and have about 70 contract sales representative who also market our products throughout the U.S.

We are here today to request the removal of HTS 7317.00.55 and 7317.00.75 which include nails, staples, brads, and similar articles from the list of products subject to the proposed Section 301 tariffs.

While we understand the administration's goal to pressure China to change its policies and practices with respect to technology transfers and intellectual property, we do not believe that the imposition of additional duties on products such as nails, staples and other similar products will be effective to meet that goal.

First, the production of these products simply does not involve the types of advanced technology we have targeted or have been targeted by China.

Second, there is insufficient production of these products in the U.S. and these China imports are necessary to support the tonnage demanded by the housing construction industries in the U.S. U.S. demand for nails, staples and similar products has surged in recent years to an increase in construction -- I'm sorry -- increase in U.S. demand, therefore U.S. suppliers will necessarily continue to source these products from China. If additional tariffs are imposed at either the 10 or 25 percent level, the U.S. housing construction industries will bear the brunt of the cost increases.

We urge the Committee to strongly consider the disproportionate economic harm that would result to the U.S. businesses and ultimately to the U.S. consumers if the tariffs are imposed on these products.

Some nails that we import from China are either not produced in the U.S. or are produced in very small quantities. For example, there's only one U.S. manufacturer of coil and hand-driven roofing nails which are readily used in the construction industry. That company is Maze Nails and they focus their production on specialty versions of roofing nails which are not typically required for use in the construction industry.

Standard electrogalvanized nails are another product that is not produced in the U.S. and has not been produced in the U.S. for many years. In addition, virtually all roofing nails for construction in the U.S. are manufactured in China. In 2008, Midcontinent filed an antidumping petition against nails manufactured in China, but requested that the Department of Commerce exclude roofing nails from the scope of the anti-dumping order. The reason for the request is that Midcontinent does not produce roofing nails in the U.S.

There's also very limited capacity available outside of China for production of nails to support the current tonnage required by the U.S. housing construction industries. Over the past 10 years Midcontinent filed numerous antidumping petitions against nail manufacturers in Oman, Malaysia, Taiwan, Korea, United Arab Emirates, Vietnam, India, and Turkey, in addition to China.

Due to the antidumping orders on nails from virtually every major supplying nation outside the U.S. the options are very limited for cost-effective sources of nails. Still U.S. importers of nails necessarily will pay the exorbitant duties to source the quantity of nails needed to meet the U.S. demand. We believe the imposition of the tariffs would further exacerbate supply conditions.

If the tariffs are imposed on nails, staples and similar products manufactured in China, companies like Continental Materials will not be able to sustain the cost increases and will need to pass the costs through to our customers and ultimately to U.S. consumers.

Economists at the National Association of Home Builders estimate the proposed tariff would impact 500 products used in residential construction. They estimate that 10 percent tariff would represent a $1 billion tax increase on residential construction, likewise the proposed 25 percent level, the impact would be $2.5 billion.

The housing and construction industries have thrived in the U.S. in recent years, but the imposition of tariffs at either the 10 or 25 percent level will very likely threaten the health of those industries.

For these reasons we respectfully request the Committee recommend the removal of HTS 7317.00.55 and 7317.00.75 from the list of products subject to the proposed Section 301 tariffs. Thank you for the opportunity to be heard today. I'd be happy to answer any questions.

Mr. BISHOP: Thank you, Mr. DiStefano.

Our next witness is Mark Proffitt with MECO Corporation.

Mr. Proffitt, you have five minutes.

MR. PROFFITT: Thank you for allowing me this opportunity to testify today. My name is Mark Proffitt. I'm the President of MECO Corporation from Greenville, Tennessee.

In Greenville we produce charcoal, electric and gas barbecue grills, as well as folding steel tables and chairs. We also produce all the components for these products as well.

MECO has been privately owned and operated by the Austin family for 63 years producing millions of chairs, tables and grills. the company was started with the goal of creating employment in our rural Tennessee community. Many years ago when farming was prevalent they recognized that the tobacco crops of the day would not sustain our community and established this company to give year-round employment opportunities to our local folks.

We presently employ 105 people. Before the Chinese began manipulating their costs and currency, as well as engaging in unfair trade, we employed nearly 900 people, that in a community of 15,000 people. We currently operate at less than 25 capacity. We've suffered reduced employment and deteriorating financial conditions for many years due to the aggressive nature of

China's practices. Even after successfully filing an antidumping case on our furniture product and achieving some tariff relief, we were not successful in not sustaining that business. China ramped up their efforts and we eventually had to stop producing most of our furniture products and lay off many of our workers.

MECO supports the proposed measures including the recent administration's recommendation that a 25 percent ad valorem duty be imposed rather than the 10 percent duty. However, we request in addition to the list please add HTSU Subheading 7321.19.00. This covers the products, the grills that we actually produce in our Greenville, Tennessee facility. That subheading presently has a zero percent tariff and a zero percent proposed tariff, proposed additional tariff. Without an increase from the present zero level we will likely be forced to reduce employment and exit most of the charcoal grill business immediately.

Two recent examples illustrate why

this is like to occur: We recently quoted one of our grill products to a major U.S. retailer. The price of that product was $13 that we quoted. They told us they could by that same product from China for $10 delivered; and our cost did not include delivery, nearly 24 percent less.

The Chinese are able to do this in part from the lower cost derived from their unfair trade practices and because they take our intellectual property. They do not invest in creating their own intellectual property. They take ours. And if you look at the last page in the handout I gave you, you'll see a picture. The top of that page shows a picture of the product that we produce today, one of them. The bottom half of that page shows a knock-off product that China is effectively selling below cost and taking opportunities from U.S. manufacturers.

Additionally I mentioned a chair that we produce and can sell to the retailer for $19. We know for a fact we can buy that same chair and deliver it to a retailer in the U.S. from China for $10, nearly half the cost.

China must be given an incentive to stop injuring our U.S. manufacturing facility, preserve our current employment level, and create more jobs for our communities. MECO urges you to add subheading 7321.19.00 to the additional tariffs list. Without that tariff our company may not survive. Thank you for this opportunity.

MR. BISHOP: Thank you, Mr. Proffitt.

Our next witness is Martin Silver with Max Home, LLC.

Mr. Silver, you have five minutes.

MR. SILVER: Thank you, Chairman Busis and members of the Committee for the opportunity to testify on the proposed supplemental action to the administration's Section 301 investigation and to present the view of Max Home, LLC.

My name is Martie Silver and I am the managing member of Max Home, a U.S. upholstered residential furniture manufacturer that employs approximately 1,000 Americans in Northeast

Mississippi and Northwest Alabama. Max Home is a 100 percent U.S. manufacturer that produces high-quality sofas, chairs and sectionals for major retailers including Macy's, Art Van, West Elm, Haverty's and Pottery Barn, as well as many more.

My goal here today is to convey the key points on why the proposed additional tariffs on rolled upholstery fabrics from China will present an insurmountable challenge to U.S. manufacturers such as Max Home. If the proposed tariffs are implemented, prices of our products will dramatically increase, sales will drop and American jobs will be eliminated.

The proposal would additionally undermine the express purpose of the U.S. foreign trade zone's program that companies like Max Home have relied upon for nearly a decade to build business plans that allow them to remain globally competitive while maintaining U.S.-based operations.

Max Home provides a unique service for consumers. Retail consumers can choose a fabric that they want on their finished furniture products and Max Home performs the complete manufacturing process operations in-house to facilitate those custom orders. We buy the fabric exclusively in rolled form so that our U.S. cut and sew operations can thrive and we do not purchase sewn kits from foreign suppliers.

The most significant fabric imports we are seeking to oppose for inclusion in the supplemental action are micro-denier suede fabrics produced with a hot caustic soda reduction process such as those found in HTS Chapters 54, 55, 59 and 60. Micro-denier suede has never been manufactured in the United States, ever. Therefore, these categories of Chinese fabrics do not compete with any U.S. textile manufacturer's product in any way.

I want to impress upon the Committee the real world practical impact that adding 25 percent duty on these fabrics will have. China's upholstery fabric producers will simply ship their rolled goods that we currently purchase to

Vietnam to be incorporated into sewn kits where they subsequently can be imported into the U.S. at a free duty rate. This will allow the Chinese producers to circumvent any U.S. duties, and more importantly will result in the elimination of most, if not all, of the U.S. cut and sewn workforce.

This will not benefit U.S. producers, U.S. jobs or U.S. furniture. On the contrary, it will eliminate U.S. jobs and shift the majority, if not all of the production processes, oversees. U.S. furniture manufacturers will be forced to relocate cut and sewn operations let's say to Mexico, for example. Chinese fabrics can be imported duty-free under Mexico's end-use tariff regime and then shipped to the U.S. duty-free. And we have already seen this happening with our competition.

Max Home has participated in U.S. Foreign-Trade Zone program since 2011 allowing us to import micro-denier suede fabrics in rolled forms and receive the same effective duty rate that it would have if be -- if would be the case if it was imported these fabrics from sewn kits free. The Foreign-Trade Zone program has allowed Max Home and other manufacturers in the region to employ Americans as cut and sew technicians while remaining competitive.

As a result, since 2011 Max Home's work force has grown by 50 percent and our cut and sew staff has increased by 70 percent. Further, our purchases of premium quality fabrics produced in America and by America mills has grown by 240 percent because we offer the consumers a choice on better U.S. fabrics for custom order. Our industry is already at a disadvantage compared to its Chinese competitors. And between the removal of our foreign trade benefits and the additional duties this action will result in total duty rates reaching more than 40 percent on some of our fabric imports.

I close again by stressing that 25 percent tariffs on rolled fabrics would be devastating for U.S. residential furniture manufacturing interests without any deterrence or impact on the Chinese practices that Section 301 is meant to discourage. The Committee should take into account that fabrics like micro-denier suede are only commercially viable when sourced from China and that Chinese fabric producers will have a simple end-around option to circumvent any new duties on rolled upholstery fabrics. U.S. manufacturers like myself in our industry will not have those options. We will simply be forced to eliminate jobs.

I therefore request that the Committee refrain from including HTS subheadings under Chapter 54, 55, 59 and 60 on behalf of the final list of tariffs, particularly under 5407, 5408, 5515, 5903, 5906, 9507 and 6005. Thank you very much.

MR. BISHOP: Thank you, Mr. Silver.

Our next final witness on this panel is Jeff Swartz with Moen, Incorporated.

Mr. Swartz, you have five minutes.

MR. SWARTZ: Thank you and good

afternoon. My name is Jeff Swartz. I'm Senior Vice President for Moen, Incorporated, one of the world's largest manufacturers of plumbing supplies including kitchen faucets, bath faucets and accessories.

We are a proud employer of 2,500 U.S. employees and on behalf of those employees I'm here today to explain why the USTR should remove specific faucet components from the proposed list of products subject to additional tariffs under Section 301.

These components support our U.S. manufacturing operations and there are no viable alternative sources outside of China. The reason we buy these components from China is because it is currently the only option we have given labor and environmental constraints.

Moen has two factories in North Carolina with hundreds of workers relying on the components that we source from China. These parts are combined with other critical components made by Moen in the U.S. as well as other U.S.

suppliers to make a fully finished faucet from our facility in North Carolina.

Putting a tariff on these necessary components from China could hurt your U.S. manufacturing presence. To be clear, Moen is a U.S. manufacturer. We sell faucets and other products to retailers, builders and wholesalers all over the United States and 90 percent of those faucets are assembled in North Carolina.

The vast majority of the world's faucet component volume is primarily made of zinc or brass and is sourced from China because that is where the equipment and labor exists. Simply put, China is the only viable option. We have looked into sourcing the components from elsewhere, but due to constraints around equipment and capacity, finding skilled labor, as well as environmental regulations, we could not. And it's not just a Moen issue. It's actually an industry issue.

First, the equipment needed to cast the parts, polish them and to finish them exists in scale only in China.

The second reason is that these processes are very labor-intensive and China is the only country that has people that have the experience and desire to do this type of labor. Manufacturing component pieces is hard, technical and dirty work. It is much -- but is also a much more skilled labor-intensive process than you may expect, but one that's absolutely critical to our overall operations.

Finishes for faucets such as chrome or brushed nickel must be consistent in order to give the final product a cohesive look. Defects in a faucet finish are unacceptable to both our production processes and our consumers. Although the specific skills associated with manufacturing finished faucets can be learned, it could take years for Moen to find and train a workforce in another country.

In addition to challenges in finding a suitable workforce there are environmental regulations that would prevent the move from

China to the U.S. The polishing and finishing processes generate a number of issues that require extensive compliance activities to meet OSHA and EPA requirements. Specifically, the dust generated during polishing requires elaborate exhaust systems and all of the finishing processes are heavily regulated by the EPA requiring significant permitting and very expensive systems in order to clean, monitor, and discharge any water or air as part of the Clean Water Act and the Clean Air Act.

Because of the labor and environmental factors China's ability to manufacture faucet components does not necessarily exist in any other country with the volumes our U.S. factories need, and this has been true for at least 15 years. Moen has previously investigated moving some of its sourcing away from China. It has investigated potential producers in numerous country and it has even investigated using U.S. and Mexican die cast manufacturers from the automotive industries in those countries. None of these possible alternative sources of supply proved viable. A move away from China would take years and cost a significant amount of money.

Moen supports the administration's concerns over China's practices related to technology transfer, intellectual property and innovation, however, faucet component production in China does not directly involve intellectual property concerns. If the United States imposes Section 301 tariffs on faucet components from China, it will decrease the competitiveness of faucets manufactured and assembled in the United States and could give an unintended benefit to foreign competitors who don't manufacture in the United States. If the tariffs are removed, we can focus on what we do best.

For these reasons and on behalf of our American workers we ask you to remove the HTS codes we listed. Thank you.

MR. BISHOP: Thank you, Mr. Swartz.

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

MS. HOWE: My question is for Ms. Avsec.

So in your testimony you said that if the tariffs on our products are imposed, it would give an unintended benefit to foreign producers.

MS. AVSEC: Yes.

MS. HOWE: Could you explain how it would help foreign producers? Do we import a lot of cabinets from foreign --

(Simultaneous speaking.)

MS. AVSEC: Sure. Sure. So one of the things that we've seen actually related to the antidumping case is there's been an uptick in what we refer to as ready-to-assemble cabinets, and those are cabinets that come over basically in flat packs and, you know, come over to then manufacturers in the U.S. who just do basically some simple assembly, not the type of manufacturing that we do.

And what the concern is is that they would just utilize some components, bring it into, you know, a third-party and then --

Vietnam, for example. Just making that up. But would ship it over and then not have to pay any of the tariffs, whereas, you know, we have 11,000 U.S. workers. We can't do that. We're sourcing from where we can source. And as I noted, it's not so easy for us to find other suppliers.

MR. HARDMAN: Good afternoon, Mr. Berkman. I've been -- I had my question set up and then I heard the last testimony, so now I'm going to shift a little bit. You gave some very specific; which I found actually interesting, explanations on the different manufacturing. And you pointed out different materials, all the different castings, all of this. How much -- I mean, you import the entire product, correct?

MR. BERKMAN: Yes.

MR. HARDMAN: So how much of that is really required to be done in China and how much can we do, for example, in North Carolina?

MR. BERKMAN: So I don't love China. I don't hate China. I just source the best place to provide quality products to our customers.

So to answer your question, just to understand our product, we have thousands of products, not -- we bring in the complete product package. So a valve, a faucet. So let's say the faucet, it sounds like Moen is bringing in the parts and assembling and doing more manufacturing in the States. We bring in the complete faucet and we either package it in our brand, but more of it goes to our customer's private label brand. So Home Depot has their own brand on the shelf. Lowe's has their own brand on the shelf. So we provide them. They import some themselves. They buy from other people like us. They buy from the best people they choose.

So we're bringing in the entire faucet. So I don't think anyone could make that in the States anywhere near price-competitive, and even if they could, it would take, like I explained, multiple years and millions of dollars in investments to greenfield it in the States. And even then they would not be competitive at all. American workers don't want to do those jobs. They don't want to polish like Mr. Swartz said. They don't want to melt metal. Do we even want people wanting melting metal in the States from the environmental? So to make a faucet, to make a valve it starts with melting metal and pouring it into a mold. And that pollution goes somewhere. And the environmental. I don't think Americans want to do those jobs.

So to answer your question in my experience we cannot make these faucets and valves in the United States.

MR. HARDMAN: Thank you.

MR. McGUIRE: Good afternoon, for Mr. Bradshaw.

So you mentioned in your testimony that for most of the household cleaning products that you sell China is the only option, that you have no available alternative. Is this -- so can you just clarify for us whether third-party countries produce this product and it's just not cost-competitive or whether China is the only producer of these products, period?

MR. BRADSHAW: Yes, most of these products are kitchen gadgets that I'm talking about, so think can openers, pizza cutters, strainers, ice cream scoops, peelers, all those little handheld gadgets that you have in your kitchen drawer at home that you use to prepare food.

These products were built in the U.S. and they left about 35 years ago to Taiwan. They left Taiwan when Taiwan migrated to higher value-add-type products: computers and electronics. About 25 years ago they went to China.

They're low-cost, low-tech, low-volume, high-variety: 4 or 5,000 different SKUs built in 130 different factories with a high labor cost to these things. And so they follow cheap labor. China simply has the capacity, the skilled workforce, the know-how, the access to raw materials to build these types of products. We've been looking for years at other countries and they're just not there yet.

MR. McGUIRE: Thank you.

MS. SMITH: Good afternoon, Mr. Berger. My question to you is that you testified that your primary product lines are bath fans and range hoods.

MR. BERGER: Yes.

MS. SMITH: For these two products what is the breakdown between the input? Are they produced in China and you bring them here or is one produced here and you import one?

MR. BERGER: They are produced here, but we use Chinese components specifically a motor, a fractional horsepower motor that actually drives the fans in each of those products.

MS. SMITH: Okay. All right. Thank you

MR. BERGER: But by and large those are made in the United States. There are some exceptions but the vast majority are produced here in the U.S.

MR. SMITH: Okay. Thank you.

CHAIR BUSIS: So what percentage of

the value of the complete hood or fan unit is the U.S. value and what percent is the Chinese motors or other components?

MR. BERGER: That's a good question. Unfortunately I don't have that on the top of my head. I do know it is the most significant component. I will research that and include the response when we file our written comments by September 6th.

CHAIR BUSIS: Thank you very much.

MR. SECOR: Mr. DiStefano?

MR. DiSTEFANO: Yes?

MR. SECOR: You mentioned in the testimony the antidumping duties on nails from a variety of countries. Has there been any increase in capacity building in the United States while those antidumping duties have been in effect?

MR. DiSTEFANO: Not that I know, and we know the industry pretty well.

MR. SECOR: And do you import solely from China or from other countries as well?

MR. DiSTEFANO: We import roofing nails only from China.

MR. SECOR: Okay. Thank you.

CHAIR BUSIS: I know you're not a nail manufacturer. I'm just wondering whether you think it's possible that -- as you may know, China has massive overcapacity in steel and I wonder if that's a factor that's causing -- basically it sounds like China is the only producer of nails, which I presume are mostly steel.

MR. DiSTEFANO: Of roofing nails, yes, they are, because of the antidumping that has been placed on other countries.

It's not all nails. I was just making sure. It's roofing nails specifically. And then that's the anti-dumping in the other countries, so they can't be produced in other countries and shipped to the United States.

CHAIR BUSIS: And what are roofing nails? Are they steel or are they aluminum? What are they made of?

MR. DiSTEFANO: They're steel.

CHAIR BUSIS: They're steel?

MR. DiSTEFANO: And they're mostly electrogalvanized.

CHAIR BUSIS: Okay.

MS. PETTIS: Question for Mr. Proffitt. If tariffs on electric, charcoal and gas grills from China go into effect, how long would it take MECO and other domestic producers to increase capacity to meet demand for these products?

MR. PROFFITT: Thank you for the question. We actually have a fair amount of capacity available that we can start utilizing immediately. I can't directly speak for the other couple of manufacturers that are still producing here. I do know one of them has been adding capacity in some of their product lines and I know that one of the others also has available capacity, but I can't speak to the specifics. But as far as the time that it would take, it's a fairly short time for us to add capacity. It's basically tooling and some basic equipment, but we have a fair amount of equipment. So the most would be 6 months to 12 months at the top.

MS. PETTIS: Okay. Thank you very much.

MR. CONCEICAO: Mr. Silver, you were talking about the micro-denier suede that you import from China for upholstery and you said it's never been made in the United States, isn't now, hasn't been, what have you. Are there other countries besides China from which you could get either the micro-denier suede or the other fabrics you import for your upholstery?

MR. SILVER: In theory yes, because it was invented in Japan and there's still some company in Japan, but that's like 40 or $50 a yard as compared with $2 a yard.

The other -- there was manufacturing of that in Korea and Taiwan, but those companies have opened up branches in China to make the goods. So although you might buy it through a Korean company or a Taiwanese company, it's actually still coming from China.

MR. CONCEICAO: China's pretty much the primary source?

MR. SILVER: That's it.

MR. CONCEICAO: Thank you.

MR. HARDMAN: Mr. Swartz, you heard my comments earlier about your production capabilities or -- I'm curious as to what it is that you're manufacturing. Is all the parts coming in and you're assembling them, or are there some parts that America still manufactures?

MR. SWARTZ: Right, I actually brought some show and tell here. I thought there might be a question on that. We actually manufacture very critical parts here in the U.S., one of which is a cartridge, which is really the engine of a faucet. So this is what determines the flow of water, on and off, hot and cold. That is something we make in our North Carolina facility. There's a lot of other parts that go into a faucet. A single faucet could have 20 to 30, 40 parts, many of which are assembled or actually manufactured in the U.S.

What we're specifically talking about today are things like handles and spouts that have a very fine polished finish, a very technical finish. That's a beautiful design. This is the -- these are the pieces that are the vast majority of capacity is in China.

MR. HARDMAN: Okay. And all of those pieces are -- you have the same issue with environmental concerns?

MR. SWARTZ: Correct.

MR. HARDMAN: All right. Thanks.

CHAIR BUSIS: Mr. Burch, I think we're -- we can dismiss this panel, right? And that's our last panel for the day?

MR. BURCH: Thank you.

CHAIR BUSIS: And we will recess tomorrow until 9:30 a.m.

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

(Whereupon, the above-entitled matter went off the record at 4:58 p.m.)

A

D

E

G

J

O

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: 08-21-18

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.

Neal R Gross

Court Reporter