UNITED STATES TRADE REPRESENTATIVE

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301 COMMITTEE

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SECTION 301 TARIFFS PUBLIC HEARING

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FRIDAY
AUGUST 24, 2018

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The 301 Committee met in the Hearing Room of the International Trade Commission, 500 E Street, SW, Washington, D.C., at 9:29 a.m., William Busis, Philip Butler, Megan Grimball, and Arthur Tsao, Co-Chairs, presiding.

PRESENT
WILLIAM BUSIS, Chair, U.S. Trade Representative
PHILIP BUTLER, Chair, U.S. Trade Representative
MEGAN GRIMBALL, Chair, U.S. Trade Representative
ARTHUR TSAO, Chair, U.S. Trade Representative
SARAH BONNER, Small Business Administration
JANET HEINZEN, U.S. Trade Representative
AMY HOLMAN, U.S. Department of State
JAMES JOHNSON, U.S. Department of Agriculture
SHELBI KNISLEY, U.S. Department of Agriculture
LINDA C. MARTINICH, Department of Commerce
MAUREEN PETTIS, Department of Labor
KATE PSILLOS, Department of Commerce
TANYA SMITH, Small Business Administration
ARI SULBY, Department of State
ADAM SULEWSKI, Department of Homeland Security
KAREN TRAVIS, Department of Labor

STAFF PRESENT
BILL BISHOP, International Trade Commission
SHARON BELLAMY, International Trade Commission

WITNESSES PRESENT
JAIME ALBIZURES, JC Technology, Inc.

S. GEORGE ALFONSO, GlobiTech, Inc. and Sommers, Inc.
WARREN AUWAE, Central California Truck and Trailer Sales, LLC
TOBY BARAN, Action Wholesale Products, Inc.
TIMOTHY BAUCOM, Shaw Industries Group, Inc.
MARK BERMAN, Rockland Industries, Inc.
STANLEY BERNARD, Drexel Chemical Company
STEVEN BLUST, Institute of International Container Lessors, Ltd.
ELAINE BOBBEY, Evenflo Feeding
LYNN BRAGG, Glass Packaging Institute
JIMMY CHITTIM, Flying Circle
PAUL COLES, Chic Foods Co., Ltd.
RICHARD R. CUNDIFF, III, XALT Energy, LLC
MATT DAVIS, Eagle Industrial Group, Inc.
ROBERT DiSANZA, Tencom, Ltd.
FRIEDRICH DOBLER, Ultra Wheel Company
STEPHEN DREW, Small Tube Products
JEFFREY DUDENHEFER, North American Chassis Pool Cooperation
BENNETT DUVAL, Challenger Cable Sales
PAUL DUVAL, LG Electronics US
RYAN EZELL, Halliburton
KEVIN FARRELLY, Crosman Corporation
CYNTHIA GARDENHIRE, Synplus, Inc.
JIMMY GOODRICH, Semiconductor Industry Assoc.
TERRENCE HARTFORD, Allegheny Technologies, Inc.
JIMMY HEIDENREICH, Direct ChassisLink, Inc.
NATE HERMAN, Travel Goods Association
GREGORY HUSISIAN, Alpine Electronics of America
BRENDA JACOBS, Oriental Rug Importers Association
TERRY KANE, Industrial Diamond Association of America
AJ KHUBANI, Telebrands Corporation
MICHAEL KORCHMAR, Leather Specialty Company
JULIE LORD, Fedmet Resources Corporation
JOHN MANDELKER, Kenroy Home
RICHARD MERSHAD, Micro Electronics, Inc.
JOHN MONTIGNY, Knape & Vogt Manufacturing Company
IAN MOORE, Wacker Chemical Company
DREW MURRAY, MGroup
KURT NAGLE, American Association of Port

Authorities
KENNETH O'BRIEN, Gemini Shippers Group
HUN QUACH, Retail Industry Leaders Association
JOHN REINHART, Virginia Port Authority
CHRISTINE ROBINS, Char-Broil, LLC
ANDRES RUBIO, Maximum Direct Transport
DAVID RUMBARGER, Community Development Foundation
ARVIN SCOTT, Power Stop, LLC
KAREN SERVER, VeriFone, Inc.
CHAD SEVERSON, InSinkErator
HEMENDRA SHAH, Claremont Flock
PAUL SHEKOSKI, Primex Family of Companies
JOSEPH SPRARAGEN, Align Hospitality Furnishings
DAVID SWEET, American Down and Feather Council
JASON TAKAC, Huntingdon Fiberglass Products
RANDOLPH TAYLOR, Absecon Mills
JON TILLEY, BTIC-America Corp.
DOUGLAS TOWNSEND, Hooker Furniture Corporation
RON VOIGT, Diamond Innovations, Inc.
GENE WALKER, Premier Rubber Company
CHARLES WELLINS, FlexiVan Leasing, Inc.
PAUL YOUNG, Surfaces Southeast, Inc.

T-A-B-L-E O-F C-O-N-T-E-N-T-S

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

(9:29 a.m.)

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

CHAIR TSAO: Good morning and welcome. The Office of the United States Trade Representative, in conjunction with the Interagency 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 this investigation.

One 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, 2018, USTR published a Federal Register notice seeking public comment on a proposed supplemental action to be taken in the investigation. The proposed supplemental action is an additional duty on a list of 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 ten 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, and 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.

The hearing is scheduled for six days, concluding Monday, August 27th. This is the fifth day of the hearing. We have 46 panels of witnesses with approximately 350 individuals scheduled to testify.

The provisional schedule has been

posted on the USTR website. We have eight panels of witnesses scheduled to testify today. We will have a brief break between panels and a 30 minute break for lunch.

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

After the testimony from each panel of witnesses, the Section 301 Committee will have an opportunity to ask questions. 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 and the schedule, we request that the witnesses, when responding to questions, be as concise as possible.

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

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

We are pleased to have international trade and economic experts from a range of U.S. government agencies participating on the Section 301 Committee today. And I will ask them to introduce themselves for the record.

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

MS. MARTINICH: Linda Martinich, Office of Textiles and Apparel, U.S. Department of Commerce.

MR. SULBY: Ari Sulby, U.S. Department of State.

MR. JOHNSON: James Johnson, U.S. Department of Agriculture.

MS. PETTIS: Maureen Pettis, Department of Labor.

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

CHAIR TSAO: And I'm Arthur Tsao, U.S. Trade Representative's Office. Mr. Bishop, we're ready to begin.

MR. BISHOP: Mr. Chairman, our first witness on this Panel is Paul Coles with Chic Foods Company, Limited. Mr. Coles, you have five minutes.

MR. COLES: Good morning and thank you for allowing me to come here today and testify on this important subject. My name is Paul Coles, I'm the Vice President of Quality Assurance for Chic Foods. We're a canned mandarin orange manufacturer located in China.

I'm not an attorney, I'm a food technologist by training. I have been in the food business for approximately 40 years. I was with Del Monte Foods for 22 years.

Twelve years of that I worked on mandarin oranges. And then I switched from Del Monte over to our co-packer, Chic Foods. And I'm now responsible for their quality program.

I've been working on mandarin oranges for at least 20 years. So I'm very passionate about this product.

And we're requesting a tariff exemption on the imports of canned satsuma mandarin oranges from China, for the following reasons.

You've heard from the attorneys already. There's been two of them this week presenting. I'm a technical guy, I don't know the rules and regulations. I focus on the technical aspects.

But canned satsuma mandarin oranges from China have added to the variety of canned fruits available to the American people.

Previously, canned mandarin oranges were only available for sale in 11 ounce cans.

The peak sales were typically at the major holidays such as Thanksgiving, Christmas, Easter. And they were used mainly as an ingredient in a Jell-O mold or a salad.

The sales were a very minor contribution to most U.S. food companies. Our customer, Del Monte Foods, helped transform this industry by making it into an affordable everyday experience by innovating in the area of packaging.

And this is an example. A plastic cup, single-serve, that can be put into a child's lunch.

They took an item that was of minor importance and they made it into the number one fruit snack item. The majority of the canned mandarin oranges currently consumed in the U.S. are produced in China.

All the major brands, Dole, Del Monte, private labels such as Walmart, Safeway, Target, source their mandarin oranges from China.

The mandarin orange canning process was

developed in Japan during the 1930s. There are no canners of mandarin oranges located in the U.S. So there is no impact on the U.S.-based canning industry.

The process was introduced into China by the Japanese to supply the Japanese market. We have been in the business for 20 years suppling Del Monte.

The basic process was in place and our main efforts have been in the area of packaging innovation, food safety and sanitation, making certain the factories meet the requirements for the U.S. market.

The product cannot be easily packed in the U.S. New equipment would be needed to be purchased and it takes a great deal of hand labor to produce the mandarin oranges, making it unsuitable for a U.S. manufacturer. If it could be done easily, our customer would already have done so.

We supply something to the U.S. manufacturers and distributors that cannot be made here, which helps their total business.

The addition of a ten or 25 percent tariff will raise the retail price and the cost of living of American people because the duty would be just added on to the cost of the retail price to the consumer. And they would have to bear the burden of it.

The canned mandarin orange business has a very slim profit margin and they could not bear to take the cost of the tariff without passing it on to the consumer. This would affect parents, children, seniors who like to have a convenient, single-serve snack.

The canned satsuma mandarin orange industry is not included in Made in China 2025, for comprehensively upgrading the Chinese industry. Our American customers have not been forced to turn over any intellectual property rights, innovation control or have had any other restrictions placed on them.

Our U.S. customer has spent years building up this business and has spent a lot of money doing so. We have had a very close relationship in expanding the range of packaging materials and packing media used in order to give the American consumer a greater choice when purchasing mandarin oranges.

Thank you for your time and attention on this matter.

MR. BISHOP: Thank you, Mr. Coles. Our next witness is Robert DiSanza with Tencom, Limited. Mr. DiSanza, you have five minutes.

MR. DISANZA: Thank you very much. I am President of a company called Tencom. Tencom is a composite manufacturer of various fiberglass shapes and profiles using the pultrusion process.

The main component in our products is direct draw E-glass fiberglass roving. Seventy-five percent of our material cost.

These are some of the shapes we make at our Toledo, Ohio facility. Rods and various cross-sectional shapes. This is direct draw E-glass roving. This is glass pulled into a fine fiber. We buy it in large rolls.

Our company has been in existence at our Ohio facility for 20 years and we currently employ 50 people in production, engineering and administrative jobs. Many of our employees have been with us since the beginning.

Twenty years of risk, we can share in some success. The company is an extended family. We care very much about each other.

We purchase E and ERC glass roving from both domestic and international sources. When purchasing internationally, the material is under Tariff Code 7019.12.00.

Twenty-five percent of the E, ERC glass used in the U.S. is imported from China. $120 million in 2017 under Tariff Code 7019.12.00.

Domestic suppliers do not have enough capacity to make up for the Chinese supplied portion of the market. Other worldwide suppliers are not likely to make up the 25 percent market share from China because Asia produces 57 percent of all glass roving in the world.

I have attached some industry trade

group information about the amount produced in each portion of the world. More than 17 companies have production facilities in China. Only three in North America.

There is simply not nearly enough production capacity of E and ERC glass for the foreseeable future to fill demand without buying from China. The proposed 25 percent tariff on Chinese glass could be hugely disruptive to the E, ERC glass markets. The result would be an increase in the market price of E, ERC glass.

Since the glass composes 75 to 80 percent of our raw material cost, this is not a few pennies to the cost of a can of soup situation for us. A 25 percent increase in market price would require us to raise prices substantially --- close to 20 percent -- to remain profitable and stay in business.

This poses huge risks that customers may choose to transition away from composites to other materials. A greater threat is that we will lose our customers to competitors located across the border in Canada and Mexico.

The Canadian competitors are only a couple hours away from our Toledo, Ohio location but would have a huge new price advantage.

Mexico, Asia, really most of the rest of the world would be in a position to undercut our pricing.

Small U.S. companies like Tencom have very little choice. We cannot transition manufacturing to another facility or reach out to other worldwide locations for help.

I understand you want to beat China over the head with these tariffs to get them to trade more fairly. But in our case, you're putting at risk the jobs, efforts and future of people that have spent 20 years building a small American manufacturing company.

Please consider excluding 7019.12.00 from the proposed tariffs.

MR. BISHOP: Thank you, Mr. DiSanza. Our next witness is Friedrich Dobler with Ultra Wheel Company. Mr. Dobler, you have five minutes.

MR. DOBLER: Thank you. Thank you for allowing us to be here and sharing our views. My name is Fred Dobler, I am the President of Ultra Wheel Company.

Ultra Wheel is a California company and we are relying on these imports for our livelihood. Our corporation was founded 35 years ago by Jim Smith.

Jim's aim was to provide American drivers with wheels that were safer, stronger and more durable than anything else available on the U.S. market. We're delivering on Jim's promise every day by maintaining our core principles of quality and reliability.

We import cast aluminum wheels for automobiles, light trucks, SUVs and related accessories that include wheel center caps, together with our joint venture partner FEMTEC, which is another California corporation.

Our wheels are classified under subheading 8708.70.45. We respectfully request that this line item be removed from the proposed modification of action pursuant to Section 301.

We request the removal of the wheels from the proposed tariffs for the following reasons. There are no domestic manufacturers left in the United States and third country manufacturers don't have the capacity to supply the aftermarket cast aluminum wheels imported from China as demanded by the U.S. market.

The tariff would cause undue harm to two U.S. corporations, Ultra Wheel and FEMTEC. The inclusion of cast aluminum wheels in Section 301 is inconsistent with the government stated objectives in imposing the proposed tariffs.

We currently import and sell $34 million worth of cast aluminum wheels per year. There is no aftermarket cast aluminum wheel manufacturer -- which I already mentioned -- in the United States.

The wheels we import from China, they're specially designed and engineered for Ultra Wheel. They're specific molds. So our wheels, they're not available anywhere else in the world.

Capacity for production of aftermarket cast aluminum wheels is available in small volumes. For example, South Korea, India, Thailand. But again, not in the volumes that the market is demanding.

The proposed tariffs would cause a severe harm to us, our distributors, and U.S. consumers. The 25 percent would put us out of business. We can't absorb that type of cost with our current profitability.

We estimate the cost of the 25 percent next year to be over $8.6 million. The tariff would force us to increase the price of our products to our customers, of course, which are U.S. distributors of aftermarket wheels.

We anticipate that Ultra and FEMTEC would be forced to cut jobs in the United States, including designers, engineers, quality sales people, administration and warehouse personnel.

Moreover, many of our customers who are distributors of our products would lose as well.

These tariffs we don't feel address the

unfair Chinese trade practices the United States has identified and targeted under the Section 301 of the Trade Act.

Cast aluminum wheels and related accessories, center caps and such, are not strategically important to China. China's Made in China 2025 initiative does not include auto parts.

We have experienced no intellectual property theft, forced disclosure of intellectual property related to the manufacturer, or sale of cast aluminum aftermarket wheels or their accessories. And we're aware of no reports of any such activity in our industry.

The imposition of tariffs on our wheels and accessories, the center caps that come with them, cannot be expected to eliminate China's objectionable trade practices.

For those reasons we sincerely, respectfully request that aluminum wheels, under subheading 8708.70.45 and the center cap accessories, under 8708.70.60, be removed from the list of goods subject to the Section 301 tariffs being considered in this proceeding.

And, again, thank you very much for allowing us the opportunity to share our views and for listening to the public on this matter. Thank you so much.

MR. BISHOP: Thank you, Mr. Dobler. Our next witness is Terry Kane with the Industrial Diamond Association of America. Mr. Kane, you have five minutes.

MR. KANE: Committee, Chair and distinguished committee members, I am Terry Kane, Executive Director for the Industrial Diamond Association of America, whose members are importers, suppliers, tool makers, machine tool builders, and end users of industrial diamond cubic boron nitride and polycrystalline materials classified as superabrasives.

Imposing additional duties on these superabrasives would cause economic harm to U.S. interests and consumers because over 90 percent of all superabrasives are manufactured in China.

These superabrasives are used in cutting tools for grinding, polishing, drilling, machining, wire drawing and cutting materials that are used in every industry. For example, in aerospace and defense, exotic materials used in jet engines and other components can only be effectively and cost efficiently finished with superabrasives.

The same holds true for the automotive and heavy equipment industries, where steel and aluminum parts can only be machined and ground effectively with superabrasives.

In oil and gas, diamond drills achieve higher production in oil and gas recovery. Glass, ceramics, concrete, granite, wood composites and every difficult-to-finish material in every industry has the same drawback to manufacture without superabrasives.

Superabrasives are critical for national security, as these are used to manufacture airplanes, armor, rockets, weapons, vehicles and heavy equipment for the armed forces.

The new $717 billion defense bill features parts made using superabrasives for military vehicles, jet engine ships and armor. The ability of the USA to remain ahead in the space race, military race and related industries, may be significantly impacted as there are few companies outside of China producing superabrasives.

Components for U.S. businesses, like Apple, Cisco, Intel, Ford, GM and Boeing, are manufactured using superabrasives.

Superabrasive tariffs will affect the ability for U.S. companies to compete on an international scale and cause an extreme hardship on U.S. manufacturing. Tariffs would increase the cost of all manufacturing operations and in turn be passed on to the U.S. consumer resulting in exorbitant product costs.

There is limited U.S. production of superabrasives and an inability to obtain enough products from non-Chinese third-party source to fulfill the requirements of all manufacturing operations. The ability for the USA to compete with other countries that do not have Chinese tariffs will be significantly reduced in most manufacturing operations.

Automotive, aerospace, oil and gas, woodworking glass, electronics, medical defense, space exploration, construction and more, would be adversely affected by tariffs on superabrasives.

Each manufacturing operation at all industries affects millions of end users, which translates to almost the entire consumer base of the USA. Our industry asks for exemption from tariffs for the following HS Codes, 2850.00.20, 3824.99.39, 7102.21.10, 7102.21.30, 7105.10.00, 8113.00.00, 8207.13.00 and 8207.20.00.

These HS codes and others cover industrial diamond cubic boron nitride and polycrystalline materials. These are key issues that we hope the USTR will consider when determining which Chinese products should be excluded from tariffs.

China is the supplier of superabrasives

to the USA and no other country can produce the amount needed for industrial requirements. That is a unique position that sets us apart from all other products threatened with tariffs.

Imposing tariffs on superabrasives will do little to combat unfair Chinese trade practices that the USTR has identified for infringement or weak protection of intellectual property, cyber intrusions and other practices that are unreasonable or discriminatory and that are harming American intellectual property rights, innovation and technology development in certain sectors.

According to the 301 report, the technologies that China is attempting to target through its unfair trade practices are strategic in advanced technologies and certain industries. Superabrasives are not on this list and therefore imposing tariffs on superabrasives is unlikely to place any significant pressure on China to change the policies identified by the USTR.

Thank you for your consideration and

attention to this matter.

MR. BISHOP: Thank you, Mr. Kane. Our next witness is Ian Moore with Wacker Chemical Corporation. Mr. Moore, you have five minutes.

MR. MOORE: Oh, no, thank you. Yes. Yes. Good morning. Thank you for the opportunity to appear before you today. My name is Ian Moore and I am the Vice President of Wacker Chemical Corporations, silicones division.

Wacker Chemical Corporation is an American manufacturer and global leader in the production of polysilicon and silicones. Both of which we produce in the United States.

We have six production facilities in the United States, including a state of the art polysilicon plant that opened in Tennessee in 2016. I will talk more about that plant in a minute.

On behalf of Wacker and its 570 employees in Michigan, Ohio and California who use the imported inputs that I'm going to discuss today, I respectfully request that the subcommittee exclude HTSUS 2811.22.50 -- which is fumed silica, or HDK -- and HTSUS 2931.90.90 -- which is organo-functional silanes, or OFS -- from the list of products potentially subject to Section 301 tariffs.

Tariffs on these products would be inconsistent with the subcommittee's focus on the Made in China 2025 program and would also cause serious economic harm to U.S. interests. I understand that the USTR is deeply concerned by China's Made in China 2025 program.

If I could only make one point today it would be this, tariffs on fumed silica HDK and organo-functional silanes would only further the goals of China's industrial policy and undercut our plans to establish U.S. production of HDK fumed silica in the very near future.

HDK and OFS are used in silicones. Silicones go into many consumer products. Everything from skin care to baby bottles and ceiling caulks to spark plugs.

In addition, silicones are used as building blocks in a number of high tech applications. For example, silicones are used in wound care for -- specifically in transdermal drug applications.

They are also used in automotive electronics, including heat dissipation and electric car batteries and sensors in automated vehicles.

As I am sure you know, bio medicine, high performance medical devices and new energy vehicles are a central focus of the Made in China 2025 program. Fumed silica and organo-functional silanes are not.

If HDK and OFS are subject to 25 percent tariffs, these tariffs will have served as a de facto subsidy to Chinese industries that are a central focus of the Made in China 2025 program.

More importantly, HDK and OFS are used in the United States in a variety of manufacturing applications, including U.S. medical devices and electric vehicles that compete directly with imports from China, Taiwan and Korea, among others.

Tariffs on imported HDK and OFS will

tax U.S. industries and hurt the competitiveness of the very same U.S. industries that are struggling to compete against Made in China 2025. This cannot be what you intended.

Beyond the economics that I have just laid out, tariffs on these two products will have real life impact on well-paying U.S. jobs and places where they are solely needed, and on Wacker's efforts to establish U.S. production of HDK.

We source HDK in order to manufacture a number of products, including heat-cured liquid silicone and room temperature vulcanized rubber. We rely on imported OFS to make methyl fluids, plasticizers and specialty silicone fluids.

We are doing well and our employees are doing well. Wacker anticipates additional hires and investments to meet growth and position our U.S. silicone operations as an innovation leader.

A 25 percent tariff puts this growth in jeopardy. The additional costs will either be borne by us or passed on to our customers, making production of their end products in the United

States less competitive, and in some cases uneconomical, particularly for export.

We serve upwards of a thousand customers ranging from multinational companies to family owned businesses. Many customers may not be able to pass on these significant costs, and as a result, may be forced to exit certain businesses or worse.

This could negatively impact thousands of American workers. And once you lose these businesses, they can be nearly impossible to get back.

One last point. We are set to become a significant producer of HDK in the United States. In fact, we are adding a $150 million HDK facility alongside that state-of-the-art Tennessee polysilicon facility I mentioned before.

Production is scheduled to be operational in 2019. I implore the Subcommittee not to do anything to damage the HDK consuming industry in the United States.

We need a thriving consumer base once

we begin supplying American companies with American made HDK. Otherwise, justification for the building the plant would be so challenging.

Thank you for the opportunity to address the subcommittee today. I hope you agree that tariffs on HDK and OFS will only serve to subsidize the same Chinese industries that are benefitting from the Made in China 2025 program and undercut efforts to establish U.S. production of HDK.

I'm happy to answer any questions at the end of all the testimonies. Thank you very much.

MR. BISHOP: Thank you, Mr. Moore. Our next witness is Gene Walker with Premier Rubber Company. Mr. Walker, you have five minutes.

MR. WALKER: Good morning, my name is Gene Walker from Premier Rubber Company in Farmingdale, New York. I'd like to thank you for the opportunity to speak with you today about a very serious problem many industries have suffered.

MR. BISHOP: Pull your mic a little

closer for me please.

MR. WALKER: Sorry. Over 100,000 U.S. jobs in the commercial truck tire and retreading and children's playground safety surfacing industry are being threatened as a result of the February 22nd, 2017 ruling by the ITC not to impose tariffs on truck and bus tires produced in China.

These poor quality cheap imported truck and bus tires and retreaded tires are jeopardizing many different industries in our country. Premier Rubber is a national supplier of the waste stream generated retreading a truck tire.

That waste stream is called buffings. Buffings are the shavings -- the rubber shavings that are ground off an old truck tire to create a uniform surface in order to put on a new tread.

That waste stream is the main ingredient by weight in the most commonly used rubber surfaces throughout the United States. All of the colorful surfaces you see under every playground at an elementary school, town, city or national park, has rubber buffings as the main ingredient.

Over 50 percent of the buffings generated nationally goes directly to children's playground safety surfaces. Buffings are also used as a main ingredient to manufacture -- to manufacturers of industrial products such as gym flooring, railroad crossing and fatigue mats, just to name a few.

99.99 percent of the buffings generated in the U.S. are recycled. There is a massive shortage of buffings with such a high demand.

Buffings is so unique it cannot be copied, duplicated or re-manufactured at a reasonable cost, other than the process of retreading tires. The cost of buffings have gone up, in many cases 20 percent over the past 12 months, due to a limited supply available.

All of these manufacturers are trying to expand their business, which will result in employing more people, but cannot because they can't get enough raw material.

I describe my company as someone who

sells flour to the bakery, but we don't bake anything. You can't bake any cookies if you don't have any flour.

The unique elongation of buffings makes it a perfect fit to achieve shock absorbing properties essential to protecting children in the event of a fall on a playground.

Did you know a quality truck tire can be retreaded four to five times and run almost a million miles compared to a cheap import that can only run a fraction of that?

These cheap imports are considered in the industry as a one and done and off to the scrap tire pile. Do you know that 38 states currently accept scrap tires in their landfills?

Every time a truck tire is retreaded, approximately 12.5 pounds of buffings are generated. Which means a quality tire will contribute up to 50 pounds of buffings that is recycled into valuable products before that tire enters the waste stream.

The retread industry has experienced

a significant reduction year over year for the past four years since these cheap imports have gained market share. The cost of these imports on the market are up to 30 percent less the cost of a quality retreaded truck or bus tire, thus resulting in the retreaded tire not even being in the conversation due to price.

When an independent trucker breaks down on the side of a road with a flat, they're asking for the cheapest tire just to get them rolling. These cheap imports are being dumped on our country illegally, in order to gain market share and put the competition out of business. The retreaders.

Retreading tires produced in the U.S. from 2014 to '17 are as follows. In 2014 there was 15.6 million units. '15 was 14.8. '16, 14.5. '17, 14.3. The market trend speaks for itself.

Unless something is done to slow down the influx of these tires by imposing tariffs -- which will even the playing field -- the retread and related industries will continue to close their door forever, which will also have detrimental effects to children's playground safety surfaces, in addition to the other industries that utilize buffings as their main raw material.

Within the past 12 months, I personally know of three retread plants that have closed, laying off over 50 people. The reason they say is they can't compete with cheap Chinese imports.

I am one of the creators of the retreadinstead.net, which was created to educate our state senators on what retreading is and the value it brings to our country.

On May 18th, 2018, 5,200 letters were sent out from 2,600 zip codes from across the country to each of the two senators from that particular state.

Ninety-six state senators received our information to draw their attention to the problem, asking them to confirm the nominations President Trump has made to the International Trade Commission.

We also followed up with mailing 2,600 letters on June 17th addressed to President Trump, making his office aware as well of the problem these cheap tires represent to U.S. jobs and children's playground safety surfacing.

On June 20th, a group of industry leaders and myself attended Federal Lobby Day at the U.S. Capitol. This enabled us to directly voice our concerns to members of the Senate.

We met with the Office of Senator Paul, Rubio, Alexander, Gillibrand, Kaine and Senator Warren. We were very well received.

You would think that every tire dealer would support not --

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

MR. WALKER: You would think that every tire dealer would support not having a tariff on the products they sell when in fact, over 90 percent of all letter writing campaigns support us tire dealers.

I plead with you today to protect the thousands of hard-working men and women in these small to medium businesses throughout our country and protect our kids from dangerous falls on the playground by imposing tariffs on these low cost quality Chinese manufacturers. I urge you to put in place the tariffs that meet the recommendations of the ITC study of between 23 and 65 percent.

I welcome any questions or follow-up testimony. Thank you very much for your time.

MR. BISHOP: Thank you, Mr. Walker. Our next witness is Stanley Bernard with the Drexel Chemical Company. Mr. Bernard, you have five minutes.

MR. BERNARD: Good morning, I'm Stanley Bernard, Vice President, and also a career formulation chemist with Drexel Chemical Company. I'm also a farmer in Mississippi and Arkansas.

Headquartered in Memphis, Tennessee, Drexel is a family-owned U.S. manufacturer of generic off patent crop protection products, also known as pesticides. Founded in 1972 by Bob Shockey, Drexel is still owned and operated today by Mr. Shockey and his family.

Drexel employs more than 400 people in

nine production facilities located in Tennessee, Mississippi, Georgia and Arkansas. Primarily, Drexel produces its products in U.S. facilities from technical grade pure pesticide active ingredients manufactured by other entities.

The formulations and processes used in producing Drexel's products are developed in Drexel's research and development laboratory in Memphis. They're a necessity.

Most of these raw materials are imported from China, as there is no other world source. Drexel imports 20 pesticide technical active ingredients from China.

While a small number of these ingredients are also produced in the United States, these domestic sources are our competitors and refuse to sell to Drexel because we produce low cost alternatives to their name brand products.

In addition, to gain approval from EPA for an alternate source of a pesticide active ingredient, it can take up to two years and cost an extremely high amount of money.

Drexel's business is based upon bringing economically priced quality generic crop protection products to U.S. agriculture. The generic agricultural chemical market is challenging as Drexel strives to compete with the large multinational chemical and seed companies, whose marketing programs are based upon bundling patented products with off patent products.

These programs are designed to limit competition -- especially competition from generic producers like Drexel -- and to maintain a price premium.

Such competition keeps Drexel's profit margins low. Additional tariffs would cost Drexel its market. A market Drexel has worked 46 years to achieve.

Nearly every Drexel product was once part of a large multinational chemical company's proprietary product line and was unavailable to competition. The proposed tariffs would cause Drexel to lose its markets and its business, leading to plant closures and layoffs of up to two-thirds of our employees.

Of the 20 raw pesticide active ingredients Drexel imports from China, nine are also marketed by Syngenta. Syngenta is a large chemical company operating in the U.S.

In fact, Syngenta is wholly owned by the Chinese National Chemical Corporation, known as Chem China. Which is a state-owned Chinese company.

If these Section 301 tariffs are implemented, they will have a catastrophic effect upon Drexel. Syngenta will be able to raise its prices to U.S. farmers. This would have a perverse effect upon benefitting Syngenta's Chinese government owners, to the detriment of small U.S. farmers and businesses. At a minimum, Syngenta would benefit in reclaiming its market share from Drexel.

The same can be said of Adama. Another large multinational crop protection company also owned by Chem China, and a direct competitor to Drexel.

In contrast, Drexel only purchases from Chinese manufacturers that are private enterprises, not government-owned entities. The impact of these tariffs on consumers would be higher prices and lower service.

The impact on U.S. farmers would be devastating. All U.S. farmers -- especially smaller farmers -- rely on some quantity of generic products to lower their cost.

U.S. farmers' crops are commodities marketed globally. Any additional increase in crop protection or crop production, imports, makes it that much more difficult for U.S. farmers to compete. Thank you.

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

MR. JOHNSON: Thank you. Mr. Cole, your testimony stated that there are no manufacturing of canned mandarin oranges in the U.S. Can you elaborate on, has there been in the past or is this a product that's a -- is the fresh fruit not available in the U.S.?

MR. COLES: It's never been manufactured in the U.S. There really is no source of mandarin oranges on a commercial available basis to do it either.

It started in Japan, then it moved to Korea, then it moved to Spain and then to China.

MR. JOHNSON: You also stated that 90 percent -- I believe it was, sorry -- that China is the major supplier. Who are the other major suppliers and do they supply to other markets or is this situation the same globally?

MR. COLES: The next biggest supplier is Spain. And Spain typically services the EU states. They don't have sufficient quantity to export large volumes to the U.S.

MR. JOHNSON: Okay, thank you.

CHAIR TSAO: Sir, a quick follow-up. Are there substitutable fruits for mandarin oranges or substitutable for the particular cup or are there comparable products that consumers can move towards should the mandarin oranges not become -- become not available?

MR. COLES: Well, there are peaches, pears, mixed fruit, pineapple. But it seems like the favorite of children are the mandarin oranges.

MS. BONNER: Mr. DiSanza.

MR. DISANZA: Yes.

MS. BONNER: You testified that there wasn't enough domestic capacity to supply U.S. manufacturing, specifically in the E and ERC glass.

MR. DISANZA: Correct.

MS. BONNER: Do you anticipate that capacity could increase if tariffs were imposed on Chinese goods by those domestic suppliers?

And you did note that there were some third country manufacturers of it. On -- what do you base your view that you don't believe the non-Chinese competition could make up that gap and what your industry needs?

MR. DISANZA: The --- 57 percent of all the worldwide supply of glass is made in China. The -- most of the other worldwide suppliers, some of them are in the EU -- I'm sorry, some are in the Middle East, and they're really feeding in the oil and gas industry which uses a lot of composites.

And so, there aren't a lot of other sources that export to the United States or have ever exported to the United States.

Domestically, we've already seen lead times from our domestic suppliers double just since the discussion of the tariffs, not even the tariffs are in place.

People are trying to line up friendships, I think, and so they've started placing larger orders with their domestic suppliers. So we're already seeing our lead times. I'm almost out to eight weeks. I mean, as I said, just at this phase.

MS. BONNER: I just want to follow-up. That may show that they may want to increase capacity to meet the demand, do you think that they could?

MR. DISANZA: Making this type of glass is actually a -- it takes a very large type of factory. And they usually take multiple years to build and take a great deal of energy.

You're melting sand into glass and putting it through tiny orifices that are 18 micron. They're very complex facilities. So it would take years for additional capacity to come online.

MS. BONNER: Thank you.

MS. PETTIS: Mr. Dobler, I have a couple questions about the aftermarket wheel.

MR. DOBLER: Yes.

MS. PETTIS: I'm assuming that if I wanted to gussy up my SUV I would go to your company to buy some fancier wheels than what I already have on my car?

MR. DOBLER: Absolutely.

MS. PETTIS: Okay, just wanted to make sure I understood what the product was. And so, you said that there is some other manufacturers, like as in Thailand and South Korea, India, but would they be able to ramp up production to meet your needs or do you import from them at all or --

MR. DOBLER: We do not import from any

other country except China. We moved there 15 years ago and we were one of the last manufacturers to move to China.

And the countries I mentioned, they produce -- the majority of what they produce is OEM wheels. And they produce over 800,000 that they exported in those three countries. But they only imported into the United States, aftermarket, 17,000.

Our total market is seven to ten million aftermarket wheels. And we do about 600,000 per year.

And one of our issues with moving to any other location is that we have over 2,000 molds. So it would take a good 18 to 24 months and a lot of cost to duplicate those molds and make that transition like we did when we moved in 2003 from America to China, unfortunately.

MS. PETTIS: Okay. Well thank you very much.

MR. DOBLER: Thank you.

MR. SULBY: My question is for Mr.

Kane. You testified that over 90 percent of the U.S. supply of superabrasives come from China. Could you please provide details on where the remaining ten percent come from and whether U.S. existing capacity could be expanded to meet demand?

MR. KANE: All right, there are some that come from Japan, some come from Korea. There are companies that do that. Some are manufactured in the United States, but 90 percent of them come from China.

Originally, the mass production came from the United States but the trend has changed to importing from China because China makes it now. We can buy them cheaper than we can manufacture them in the United States.

You have to consider that when the original diamond was invented, the manufacturing process for industrial diamond was created. A carat of diamond -- industrial diamond -- was about $3.50 a carat, now it's like a few pennies.

So, it's really not profitable to make it in the United States.

MR. SULBY: If I might just follow up. You said that it is currently cheaper to buy industrial diamonds from China than to manufacture them domestically.

MR. KANE: That's correct.

MR. SULBY: Would that change in a world where tariffs have been imposed?

MR. KANE: I don't see that it would change because they would still have to import them. To gear up in the United States to manufacture that amount of abrasives to cover all the industries required would be a tremendous investment and I don't think that that would be an option.

CHAIR TSAO: And, sir, why is China so dominant in this particular field, I mean, is it labor, is it access to raw materials, what's the cause of their 90 percent dominance?

MR. KANE: Well, originally it probably was that the labor costs are much lower in China. But China, you have to remember that a lot of these businesses are also government subsidized, so that really helps them in a competitive worldwide basis. So that is why China is so, so prevalent in dominating for exporting superabrasives to the world.

You have to figure, just in 2013, one of the numbers, in 2013 we got 21.8 percent of abrasives from China. That was about $2 billion worth. Today we get 90 percent, which is over $8 billion worth from China.

And when you multiply that times the finished tool -- because three times that is what a finished tool costs, so you can see where that goes.

Now, the other thing is, as my counterpart in China -- the Executive Director of the Chinese Industrial Diamond Association -- I sent him a note and asked him for his input to this.

They produce very, very, very good abrasives. So we buy from China 90 percent but they don't manufacture that good a finished tool.

So in turn, China buys finished tools of superabrasives from us. Which is actually -- they import more dollar value for the finished tool than we get for the abrasives. All right?

MS. MARTINICH: Mr. Moore, could you please tell us what are the primary sources of imports of the fumed silica and the organo-functional silanes?

MR. MOORE: So, for the fumed silica, Wacker manufacturers in China and also in Germany. And we import material from both of those facilities.

We do not have a production site here yet, but we plan to start it up, as I mentioned, in the middle of 2019.

The total capacity worldwide for fumed silica is pretty much full. So, there is a lack of available fumed silica on the marketplace. So we are basically using material we produce ourselves. That is why we're importing fumed silica from China.

On the organo-functional silanes, we are not a large producer of organo-functional silanes and we must purchase them on the open market.

And primarily, outside of China, the producers are our direct competitors. So we have little to no option of sourcing organo-functional silanes from our direct competitors so we do have to purchase from China.

MS. MARTINICH: So, on the organo-functional silanes, there are other sources rather than China, can you --

MR. MOORE: Yes, our direct competitors.

MS. MARTINICH: And what countries are those?

MR. MOORE: They are based in the U.S., they're based in Europe, in Germany, in Italy. And there are other smaller producers in the United States, but not providing the full portfolio of organo-functional silanes that we need.

MS. MARTINICH: And the fumed silica, other sources, other than China? I know you said that the capacity is pretty full, but are there --

MR. MOORE: Yes. So there are two

domestic producers and they are at capacity. In fact, the United States is a net importer of fumed silica, so there is not enough domestic production to meet domestic demand. That's why we need to import.

Again, we have a production site. Production sites in Germany and also in China. And our competitors have production sites elsewhere. But, again, there is limited availability due to the capacity constraints.

MS. MARTINICH: Thank you.

MR. SULEWSKI: This question is for Mr. Walker. You had testified that retreading is an alternative to imported Chinese tires. Is that only for truck tires or is that like tires across the board?

MR. WALKER: Strictly truck tires. But it's just at a price point to where you have your -- what's considered tier one, tier two, tier three.

As a result of these recent -- within the past four or five years -- influx of these what's been created as a tier four tire. That's what we're specifically referring to.

MR. SULEWSKI: And, what's the cost difference between retreading or buying a new tire?

MR. WALKER: Retreading a tire costs approximately anywhere from $180 to about $205. If you buy a quality new tire, you're talking about $350 to $400. But that's as compared to $150 for one of these cheap imports.

And the problem with that is, with a quality tire, you can go up to approximately a million miles and that's documented. As compared to these other tires, which are just a fraction of that, because there are quality restraints that do not enable it to be retreaded.

MR. SULEWSKI: Thank you.

CHAIR TSAO: Sir, a follow-up. Can you not use --- for your particular industry, can you not get buffing from imported cheaper tires?

MR. WALKER: No, not at all. And the reason being is, is what keeps buffings at a price point of what they are is strictly because of the fact that it's a byproduct of another industry.

If you were to try to produce buffings yourself taking scrap tires and putting them on a machine, the labor costs and the effort to strictly retrieve that product would be more than double the cost of what it's available for domestically on the market.

CHAIR TSAO: And this question is for Mr. Bernard from Drexel Chemical Company. Based on your understanding of your industry, do you have a sense of why there are currently no, either domestic producer or third-country producers, of the chemical that you have discussed?

MR. BERNARD: There are a number of reasons. In some instances, production left the United States for one reason or another.

Such as Carbaryl or Temik, which was after a release at Union Carbide's Institute, West Virginia Facility. They chose not to produce it there anymore, so they moved production to China.

Newer compounds, instead of going through the process of trying to do it in the United

States or in Europe, they chose to produce it in China to begin with.

Those products would be things like mesotrione and fomesafen. There is also issues such as my former chemical company with fomesafen, which we made for Syngenta, where Drexel was placed into bankruptcy for the wrong reasons, and that production left the United States because of that.

MS. BONNER: I have a follow-up for Dr. Moore. Dr. Moore, you noted that HDK is a component in industries that are targeted in the Made in China plan.

MR. MOORE: Yes.

MS. BONNER: You specifically cited two of them. And you also mentioned you had over a thousand customers.

Either now or in your post-trial comments, could you maybe identify any other sectors that you serve in your customer base that are part of the Made in China plan?

MR. MOORE: Yes, I can do that in my post-hearing comments.

MS. BONNER: Thank you.

MR. BISHOP: We release this Panel with our thanks and we invite the members of Panel 34 to come forward and be seated. And the members of Panel 35 to come be seated in the witness holding area. Thank you.

(Pause.)

MR. BISHOP: Mr. Chairman, our first witness on this Panel is S. George Alfonso with GlobiTech Incorporated. Mr. Alfonso, you have five minutes.

MR. ALFONSO: Hello. Thank you. My name is S. George Alfonso, I'm of Counsel with the Braumiller Law Group and I represent GlobiTech, Incorporated, which is headquartered in Sherman, Texas and is the world's largest manufacturer of silicon epitaxial wafers, also called epi-wafers.

GlobiTech products are widely used in all electronic applications including, but not limited, to defense, automotive, smart phones, telecommunications and aerospace. As the world's largest supplier of epi-wafers, chances are the smart phone you are holding today has some GlobiTech in it.

The manufacture of epi-wafers requires the depositing of an ultra-thin layer of hyper pure silicon onto a raw silicon wafer. These raw silicon wafers are classified under HTS 3818.00.00 on thorough round list of tariffs.

GlobiTech sources approximately 65 percent of its supply of raw silicon wafers from the PRC. People's Republic of China.

GlobiTech has no internal or external alternatives for the sourcing of this 65 percent of raw silicon wafers. Technically speaking, the silicon that gets used to produce the raw silicon wafers, which represent the bulk of the value and technology associated with the raw silicon wafers, are not produced in the PRC but rather are actually made in Taiwan.

GlobiTech's supply of raw silicon wafers must be qualified by its global customers, many in the automotive industry. Approximately 40 percent in Europe, Asia and the U.S.

Because of the stringent industry requirements and lengthy product approval process for most customers, conversion by GlobiTech to another source of raw silicon wafers outside China, if such a source were to be located, would still require a minimum of one to two years qualification efforts before GlobiTech's customers would consider accepting such a modified product.

This one to two year time table for accepting an alternatively sourced raw silicon wafer, by GlobiTech's current customers, would likely, would not be universal as some customers have already made it known to the company that they will simply not allow or accept any changes regarding the raw silicon wafers, regardless of the length of qualification period.

For the sake of argument, setting aside the length of time it would take to qualify a new non-Chinese supplier for only some of GlobiTech's current customers, there is simply no other available source of raw silicon wafers available to GlobiTech, outside of the PRC at this time.

All other non-China based sources of raw silicon wafers are owned by competitors of GlobiTech who understandably will not provide these raw silicon wafers to GlobiTech. Therefore, the proposed tariff on Subheading 3818.00.00 was finalized.

In order to fulfill its customer's requirements, GlobiTech will none the less have no choice but to continue to purchase from its existing source of supply in the PRC which in turn will result in zero punitive impact upon the Chinese government and therefore have zero effect or pressure upon the PRC to chance its trade policies and actions, while at the same time resulting in a disproportionately severe amount of harm to GlobiTech's ability to survive in a extremely competitive global market for finished epi-wafers.

To illustrate the global nature of the epi-wafer market, 85 percent of GlobiTech sales are outside the U.S., and GlobiTech is the world's largest epi-wafer manufacturer, holds approximately 20 percent of the GlobiTech epi-wafer market share.

Therefore, GlobiTech must compete head-to-head against other foreign competitors every day. And if GlobiTech is, only, forced to absorb a substantial increase of raw silicon wafer costs, which other foreign competitors will not face, this will place the company on the edge of insolvency.

Lastly, while the epi-wafers GlobiTech produces represent a highly advance and cutting-edge silicon epitaxial technology, the raw silicon wafer material represents technology that is over 30 years old. Further, the diameter of the raw silicon wafers purchased by GlobiTech from the PRC are not of the larger latest generation sizes and are not included in PRCs Made in China 2025 industrial program.

As noted previously, the fact that the silicone ingots, ingots used to produce the raw silicon wafers are produced in Taiwan, brings legitimate question as to whether or not the raw silicon wafers, which GlobiTech purchases from the

PRC suppliers, are actually even covered under this tariff.

In summary, imposing new tariffs on raw silicon wafers will have a significantly disproportionately negative effect on GlobiTech's ability to survive in a global epi-wafer market as there are simply no other viable alternative source of supply for this key raw material.

This tariff would jeopardize the employment of approximately 225 employees in high-tech manufacturing Sherman, Texas. Also, definitive plans are now at risk involving the construction of a $58 million expansion, which is part of a $114 million expansion, which would add 93 additional employees in North Texas.

Conversely, the calculable mass of economic damage this tariff will inflict upon GlobiTech will result in no real impact effecting change with regard to the PRC's trade policies and actions. Thank you.

MR. BISHOP: Thank you, Mr. Alfonso. Our next witness is Paul Duval with LG Electronics

US. Mr. Duval, you have five minutes.

MR. DUVAL: My name is Paul Duval, I am vice president of home appliance sales for LG Electronics USA. In the United States, LG is the leading consumer brand, not only for smart phones and TVs, but also for home appliances such as French door refrigerators.

For years, LG has offered U.S. customers French door refrigerators that provide the most advance technology, unique design and functional features.

I'm here today to provide a simple message. The imposition of Section 301 tariff on imports of certain refrigerators will not influence the Chinese policy this investigation seeks to address.

But what it will do is harm retailers, especially small and medium size U.S. dealers, place a considerable tax on U.S. consumers and limit Consumers choices.

In addition, I note that refrigerators were not part of the universal product industries that the Section 301 report identified, nor did any of the public comments for the first or second list suggest including them.

Please permit me to highlight three important points. First, all of the refrigerators from China that LG imports and sells in the U.S. are supplied by our own factory located in Taizhou, China. This LG factory is privately owned and so tariffs will not influence Chinese government policies and practices.

Second, the tariffs will hurt U.S. retailers. In particular, because regional and local dealers typically offer fewer models, it is quite possible that all of their LG refrigerator models may come from China.

Accordingly, they will have no choice but to pass through the entire extra tariff to their customers, which is likely to reduce sales by these smaller retailers.

That is an extra setback for small retailers as larger national and major regional retailers typically sell entire suites of kitchen appliances, so a customer who decides to purchase a refrigerator from them is more likely to purchase other appliances from them, increasing the risk that small and medium sized businesses would lose those customers permanently.

Or stated differently, an extra tariff on refrigerators might well cause longer term damage to smaller dealers.

Third, the extra import tariffs will place yet another tax on U.S. consumers and home owners. Two important points to notes.

First, official import statistics indicate that more than 80 percent of all imports subcompact size refrigerators, for example, that college students put in their door room, come from China.

Second, LG is the market leader for French door refrigerators, a majority of which are made in China.

As a result, an extra tariff on all these Chinese imports is virtually equivalent to a tax on all imports of these refrigerators. This will raise prices for consumers and will also limit consumer choice, because some consumers will not be able to afford these refrigerators.

And, I can tell you as a global manufacturer, that it would be impossible to shift production into another quickly, and still provide the value that the consumers demand today.

The washers trade case provides a good example of what happens when an extra tariff is placed on imports of appliances. Since the 20 percent safeguard tariff was imposed on washers in February, washer prices to consumers increased by more than 16 percent no matter where they were made. Including those that were produced in the United States.

All indicates are that the same will happen to refrigerators. And so, keeping refrigerators on the retaliation list will mean that trade cases will have caused dramatic increases of prices of the two largest appliance categories that consumers buy.

One of the greatest aspects about the

U.S. is our open economy that fosters competition and a variety of consumer choice. It is easy to see how placing a tax on consumer products from China, that will have no impact on China's acts and policies, will harm small and medium size U.S. businesses, increase consumer prices and decrease consumer choice.

Thank you for providing LG Electronics the opportunity to share its view on this important matter.

MR. BISHOP: Thank you, Mr. Duval. Our next witness is Jimmy Goodrich with the Semiconductor Industry Association. Mr. Goodrich, you have five minutes.

MR. GOODRICH: Thank you very much and good morning. The Semiconductor Industry Association shares the concerns with USTR outlines in the forced -- in the 301 report regarding forced technology track practices by the Chinese government.

Yet at the same time, we'd also like to take this opportunity to express our concern with the administrations proposed tariffs on a number of products within the semiconductor supply chain. Both upstream and downstream, covering virtually the entire aspect of all different types of operations necessary to manufacture and sell semiconductor here in the United States.

As you may be away, semiconductors are at the bedrock of the American economy and they're in virtually every electronic device in use today. They're America's fourth largest export leading to a global trade surplus that's over $6 billion, including with China at nearly $2 billion in 2017.

Nearly half of our company's manufacturing operations are still here in the U.S. across 19 states, supporting close to 250,000 workers here with well-paying jobs.

When viewed in combination with the 301 tariffs already imposed on the $50 billion in imports from China, the proposed third or $200 billion list will increase the costs again of nearly every vital part and component used in U.S. electronics manufacturing. This includes raw materials like silicon manufacturing parts and equipment, substrates, printed circuit boards, printed circuit assemblies, telecom networking equipment and customer desktops and servers.

These critical parts and components go into essential consumer goods, like laptops, PCs, and servers and routers. Specifically, our industry is concerned that parts and components under 8471.501 for printed circuit assemblies, will be impacted greatly by the proposed tariff list.

Roughly $11 billion in printed circuit assemblies are imported from China annually. About 67 percent of all imports of those items come into the United States.

These items are bristling with semiconductors that are actually most likely not manufactured in China but rather simply assembled there, and then exported to the United States for assembly in electronics manufacturing. For things like PCs, laptops and servers that go directly into the hands of consumers, small businesses, families, personal gamers and also enterprises for banks, telecommunication companies and so on.

Imposing tariffs on these products will potentially force those assemblers of electronics in the United states to choose among several bad options. Pass on the cost to consumers and request, and seek declining sales, or potentially risk layoffs or bankruptcy, or more likely, move those electronic assembly operations out of the United States.

The fact is that outside of semiconductors there are very few electronics that today are still assembled in significant quantity. By imposing a tariff on printed circuit assemblies, the primary component going into all electronic assembly here in the United States, we will most likely harm the last remaining segment of electronics manufacturing here in the United States.

In addition, individual consumers in the U.S. will also face the negative impact, as I mentioned. PCs, laptops and servers are not, the finished goods themselves, are not subject to tariffs on this proposed $200 billion list, but all the inputs to them are.

So those that are consumed in the U.S. that are assembled here will be facing those tariffs.

The other area that our industry shares significant concern with is on proposed tariff for telecommunications equipment imported from China under tariff Subheading 8517.62. These, again, at about $23 billion in import value from China, are bursting with semiconductors.

And just at a time when the United States is seeking to grow its 5G ecosystem and compete with nations, such as China, imposing a 25 percent cost burden on telecommunication service providers here in the U.S., where we're going to be spending upwards of $250 billion on capital expenditures to compete with China and other countries, will potentially slow down and weaken our telecommunications infrastructure here, slow down innovation, right at the time we need to be competing with China.

In sum, these tariffs, if these tariffs are imposed, U.S. consumers, small businesses and are nation's technological strength will suffer, while the real target of the 301 investigation, Chinese forced technology transfer and IP theft, unfortunately will remain unaddressed.

We therefore request that those lines be removed, and we look to alternative measures that may help us address the real problems by Chinese entities within China. Thank you.

MR. BISHOP: Thank you, Mr. Goodrich. Our next witness is Gregory Husisian on behalf of Alpine Electronics of American. Mr. Husisian, you have five minutes.

MR. HUSISIAN: Okay, thank you. Alpine is the leading supplier of high performance mobile electronics.

In modern vehicles, electronic systems do far more than just provide music and entertainment, these systems provide the navigation. They often have safety components, including GPS tracking and emergency response systems and they provide the human interfaces for controlling the vehicles.

Electronic systems supplied by Alpine are a key way in which vehicle manufacturers differentiate the products and appeal to modern consumers who expect the smartphone-like experience when they get behind the wheel.

Further, aftermarket systems sold by Alpine to its U.S. dealer network allow consumers to upgrade their vehicles and account for a significant business stream for these dealers.

The reason that Alpine is here today is that it relies heavily on a global supply chain and has created in concert with its corporate owner, Alpine Electrics, Inc.

Four of the list three tariff lines would strongly impair the ability of Alpine to supply the U.S. market. These include 8518.40.2000, which are audio frequency amplifiers, 8527.21.4040, which are combined radio and CD units, 8527.21.4080, which are integrated radio units, and 8537.10.9170, which are electrical boards, panels and components.

In each case, the Section 301 tariffs that have been enumerated by the U.S. Trade Representatives support excluding these tariff lines. First, the USTR is considering whether imposing increased duties would be practical or effective to eliminate China's acts, policies and practices.

While Alpine is in a joint venture with another Chinese company, Alpine was never forced to share any intellectual property with a joint venture partner that it did not wish to contribute for the success of the venture. Alpine has not seen any pressure by the Chinese government to share its intellectual property and operates in a market fashion within China.

Second, the U.S. Trade Representative is considering whether maintaining or imposing additional duties on a particular product would cause disproportionate harm to U.S. interests. Alpine products are often integrated into vehicle design with the displays being the first thing the driver sees when the car is started and the audio and information device is conveying essential driving information and entertainment.

Together, the Alpine products define the user experience of the automobile. With the U.S. automotive industry being one of the most vibrant sectors and providing high paying U.S. manufacturing jobs, putting tariffs on the Alpine products would harm the automotive sector and these workers.

Third, the U.S. Trade Representative is considering the impact on small and medium size businesses. Alpine partners often would appear two companies of all sizes, and Alpine's over 800 separate electronics retailer establishments are generally small and medium size businesses that rely on Alpine products as part of the product portfolios.

Finally, the USTR is looking to minimize the harm to consumers. Automobiles are one of the largest purchases most consumers ever make.

Increasing the cost of one of this large asset will have an especially large impact on lower and middle class customers, who already are finding that they need to take out five, six or even seven year loans to afford their automobiles.

Alpine can only serve the United States by drawing on its global supply chain, which it has painstakingly built up over the decades. Alpine does not have the factory capacity to suddenly shift production to other countries, even if the supply chain infrastructure manufacturing capabilities were available outside of China.

Alpine accordingly requests that the USTR delete the 8518.42.2000, 8527.21.4040, 8527.21.4080 and 8537.10.9170 tariff lines from list 3 so that it can continue to serve the U.S. market and sell to the automotive industry without this extra tax. We appreciate any questions you might have.

MR. BISHOP: Thank you, Mr. Husisian. Our next witness is Richard Mershad with Micro Electronics, Incorporated. Mr. Mershad, you have five minutes.

MR. MERSHAD: Members of the Committee, I'm Richard Mershad, the founder and chief executive officer of Micro Electronics, doing business as Micro Center.

Micro Center respectfully requests that the USTR remove desktop computers as well as computer parts and accessories classified under the subheadings detailed in this written testimony.

While Micro Center is supportive of USTR's goals as set forth in Section 301 report, we believe that the proposed tariffs on the products at issue will be ineffective for two reasons. It does nothing to address China's industrial policies defined in the Section 301 report, and two, it will have a significantly harmful impact on the domestic economy, including the retail industry, American consumers and downstream businesses.

These products are the tools, may I repeat, the tools for the American consumer to increase productivity and invent again. Taxing computers, desktops, circuit boards and network components is equivalent to taxing the text books that are used in our classrooms.

By way of background, Micro Center is a privately held corporation in a proud mid-sized American company based in Ohio. Founded in 1979 in Columbus, with originally five employees, we've grown to employ 2,600 people, at 25 retail store locations in 16 states. Some of you have even probably shopped at our Fairfax and Rockville stores.

Every year our 2,600 employees serve three million customers, including families, entrepreneurs, engineers, value out of resellers, IT professional students and small to medium sized businesses. By offering these customers a range of products, we service the needs of a wide variety of consumers, from casual to tech savvy.

Micro Center offers more computers and electronic devices than any other retailer. These mostly middle income consumers rely on our products to start new businesses, create new technologies, including building their own and computers and other devices, or to improve their daily lives. Like the TV or television, every household has to have one computer.

Turning to our first argument. In the Section 301 report USTR found that various policies of the Chinese government are designed to promote Chinese dominance in ten advanced technology industries and to replace China's reliance on imported technologies in these industries.

Importantly, the types of computers and their parts and accessories sold by Micro Center are not among the list of advance leapfrog technologies that are targeted by the Chinese government.

Second, the proposed tariffs will cause significant disruptions to the U.S. economy, including to U.S. consumers. Desktops, servers, computer parts, amount to a significant percent of our total annual sales.

In fact, desktop computers contain key parts from the United States, including the famous Intel Processor, which is used in 90 percent of our desktop computers.

Given that the profit margins on these products are very slim, as well as the fact that we expect to see a steep drop in sales due to this action, Micro Center cannot sustain an additional ten percent tariff, let alone 25 percent.

Micro Center submits that imposing a tariff of 25 percent on goods that represent a sizeable portion of our sales is effectively a significant new tax on U.S. consumers and businesses, raising retail prices by as much as 25 percent. Moreover, a drop in computer sales, parts and accessories would lead to job reduction, store closing and lower company profits.

These cutbacks will be most strongly felt in Ohio, where our high percentage of corporate administrative retail on product design employees are located. These tariffs will importantly, they will dampen our national, nations focus on science, technology, engineering and math, or STEM.

Micro Center products are geared towards STEM education, and we have invested millions of dollars in chemistry, computer science, engineering and do it yourself kits and parts, in order to develop the next generation of scientist, engineers, doctors, mathematicians and technologists.

These tariffs put a punitive tax on our customers who use our products to learn from and build the technology that helps us all.

In conclusion, Micro Center understands and supports the administration's goal to achieve fair trade practices and a level playing field in China. However, we respectfully request that the subject products be removed from the Section 301 tariff list because it will not accomplish the desired purpose, but will instead have a negative consequence on U.S. retailers like Micro Center, American Workers and U.S. consumers, our inventors and our entrepreneurs.

Simply put, I want to change China's policies. I've been traveling China for 30 years, I want you to win this battle to produce more here in the U.S., but taxing the tools is to the answer.

Thank you for your attention, I welcome any questions you might have.

MR. BISHOP: Thank you, Mr. Mershad. Our next witness is Jaime Albizures with AC Technology, Incorporated, doing business as Ace Computers. Mr. Albizures, you have five minutes.

MR. ALBIZURES: Thank you for the time, allowing us this opportunity to speak in the hearing. We, at Ace Computers, are a women-owned small business but have become one of the largest fully U.S. PC manufacturers.

It was started by the CEO and Founder, John Samborski in Madison, Wisconsin, in his college apartment building.

We have focused our business on providing both commodity PCs as well as highly specialized systems, such as forensic station, super computers and other specialties to the U.S. government, law enforcement, and Department of Defense.

And we now contract for the U.S. government, including the primary supply contracts for the U.S. Air Force, NASA and others.

We've been in business for 35 years and had many threats in our business. But the highly skewed nature of this tariff are only the largest threats in our existence. The entire, I'm sorry, I didn't bring my good glasses, for the entire company.

We employee 50 people across the U.S., the bulk of them being in Chicago suburban area. We own three buildings and assemble computers entirely in these facilities and have been growing consistently.

But the loyal workers who have an average tenure of about ten years, are very concerned, and such also is management.

When our business started in the 1980s, there were many U.S. firms in the large items of the PC motherboards, Intel cards, et cetera.

The pricing pressure became intense. The production was often moved to Taiwan for lower production costs of eventually lower production costs in China. And even the large Taiwan based companies could not compete with the lower cost of production in China.

And today, most of the PCs components are primarily manufactured in China. Mostly with Taiwan brands.

The annually, I'm sorry, the annually attended world's largest trade show COMDEX in the 1980s and 1990s, we attended that show and we saw that the show diminished after everything was moved to China. And now we have to go to China to attend that show.

The current 301 tariff plan is to apply tariffs only on components utilized and personalized computers production and not to the finished good products, means that the firms, like ours, will be paying these ten percent, the 25 percent tariffs, on the components imported from China that we receive in our larger competition that, I'm sorry, in our larger competition which consists well, known as global household names, who assemble the majority of their products in China's, Chinese and Mexican sweatshops will not.

The components of a person or computer or tablet are pretty simple these days. There's power suppliers, main logic boards, video and personal computers or tablet, are pretty simple these days. There are process or storage medium and input devices.

Out of this list, only memory processors and some storage mediums are made outside of China. That means that we, as a company, who only assemble in the U.S., would be subject to these tariffs while fully built desktops, PC notebooks, PC tablets, servers and phones, fully built in China will not be subject to these tariffs.

The large globally based firms, who have plants there in Mexico, will be able to pass through the exact same component fully assembled, at sweatshop's wages. Tariffs with -- who has this advantage on being smaller and with a full U.S. force earning wages tariffs, U.S. wages with healthcare and other benefits, will have to pay the tariffs.

In conclusion, I just want to say that

I am a transplant from a larger corporation who basically sells full boxed computers to the U.S. market. And I moved to this industry, to this small, women-owned business, a couple of years ago.

This will be devastating for all the workers there since we've been growing year-over-year, providing goods to the U.S. market. As we continue to grow, there are more and more chances of employment and to grow our industry as a whole. Thank you for your time.

MR. BISHOP: Thank you, Mr. Albizures. Our next witness is Karen Server with VeriFone, Incorporated. Ms. Server, you have five minutes.

MS. SERVER: To the Members of the Section 301 Committee, VeriFone appreciates the opportunity to submit this statement for the record. This issue is considered a top priority in our company and is being monitored at the highest levels.

In fact, today I am stepping in for Joe Mach who is our president of North American. He planned to be here to testify but is actually helping his daughter move into her first year of college. So big day for him.

For those who recognize our name but aren't familiar with what we do, perhaps a brief introduction would be helpful. VeriFone is a leading provider of payment and commerce solutions worldwide.

We operate in more than 150 countries and employ 6,000 employees worldwide. That includes over 1,200 in the United States.

In addition to our corporate headquarters in Silicon Valley, we have large operations in Alpharetta, Georgia and Clearwater, Florida. We have a number of small facilities throughout the United States and we also support jobs at repair facilities in Louisville, Kentucky and outside of Sacramento, California.

VeriFone is also a member of the electronic transactions association, or ETA. On Tuesday, as part of Panel 12, ETA's CEO urged that you remove 12 tariff lines from List 3.

We agree with ETA and are here today

to explain why three of those line items require special consideration. They are 8471.90.00, pin pad payment terminals, 8473.29.00, point of sale terminal parts, and 8473.30.11, circuit boards.

In order to put our comments into context I would like to briefly explain how VeriFone is organized. In very basic terms, our company serves three broad market segments. First is the petroleum and convenience store space, which has household name such as BP and Circle K.

Second is the vertical solutions space which services the largest retailers in the United States, including household names such as Walmart, Kroger and McDonalds.

Third is the financial solution space which serves the small, medium and local merchants. These are merchants that may have a single location or may have 15 to 20 locations.

In this space, we sell through a middle man. And as a result, margins are tighter and there is very little tolerance for additional costs.

VeriFone opposes increased tariffs on

the three line items because they would not change China's policies and would ultimately harm small merchants, as well as U.S. consumers

So, I'd like to turn first to pin pads. And these are the payment devices that sit on counters at various merchants to accept credit card payments.

Pin pads are contract manufactured in China and production would not shift to the United States where it would cost approximately 25 to 30 percent more to make here. If a shift did occur, it would mostly likely occur in a Southeast Asian company where even there the cost would be ten percent greater.

Such a shift would take six months or longer. But a shift will not encourage China to change its policies. The contract manufacturers in China are extremely efficient. They're high tech and they will quickly sell any available capacity.

Plus, the additional duties will have a very disruptive effect here in the United States.

Unlike an industry with a localized impact, the increased cost from an additional 25 percent duty on pin pads, cuts widely across all market sectors.

In our petroleum and convenience store market, higher costs mean merchants would not upgrade to EMV pin pad technology, which is the latest in security protection for consumers. So a real impact is a security gap in that very large market.

In our vertical solutions market, a price increase would impact future sales, as larger merchants are less willing to upgrade or purchase new devices. But it is the financial solutions market that poses the greatest risk.

Slimmer margins and increased tariffs would jeopardize local businesses, forcing them into an untenable choice. Do they forgo purchasing upgraded pin pads, and, again, with a security gap, or do they purchase from our competitor.

Our major competitor is a French company that does not produce in China and would not be subject to the increased duties. So lost sales would result in a direct loss of U.S. jobs.

So turning quickly to point of sale terminal parts and circuit boards. Both enable repairs by U.S. workers in the United States.

POS terminals already removed from List 1 and it would make little sense to make the repair parts so expensive. It is the same for circuit boards, which are used to repair pin pads and upgrade security.

Reducing U.S. jobs and hampering security cannot be the goal of the Section 301 action. Thank you and I look forward to taking any questions.

MR. BISHOP: Thank you, Ms. Server. Our final witness on this Panel is Paul Shekoski with Primex Family of Companies. Mr. Shekoski, you have five minutes.

MR. SHEKOSKI: Good morning, Chairman and the Section 301 Committee. Thank you for allowing me to represent our company, listening to our story and provide you with a potentially new perspective as you grapple with these important decisions.

As I said, I'm Paul Shekoski, Primex Family of Companies. We're a small, 75 year old family business that focuses on applying technology innovations to help consumer's lives become easier, more convenient and our business is more productive.

We believe innovation is synonymous with small business and live that credo. Our offerings span from clock parts to weather stations to industrial scale cloud solutions, processing over 20 billion transactions a month, supporting sensor monitoring for the joint commission deemed by the CMS.

We are in over 30 percent of all hospitals today and are one of the largest suppliers of weather stations and clocks in North America through our mass online and indirect channels.

As I said, we're celebrating our silver 75th anniversary this year in our retail business, the Chaney Business. We are proud of that fact given that the average lifetime of company in the

S&P is less than 15 years today and getting shorter.

This business was literally started on a kitchen table part-time by an innovative entrepreneur who wanted to make a better life for his family and have an impact on his community. It's a classic American story built on sweat, equity and innovation. All businesses start as an idea and grow into large corporations.

Over the course of the last 75 years, we have grown our business to $100 million, employ 175 people in the U.S., Canada and Hong Kong, with 150 of those stationed here in the U.S.

Primex is very supportive and understands the goals of the USTR and the administration have outlined in various reports detailing China has aggressive and discriminatory policies today.

Today I'd like to identify three reasons why six of the HTS codes should be excluded, should be considered to be excluded, from List 3 of the proposed tariffs. The first one is irreparable harm.

The consumer division that we have is about $70 million and struggles in the best of years to make $2 or $3 million. These six products would cost an additional half million dollars on top of the $5 to $6 million on List 1 and 2. So the tariffs alone are comprising 2x what we make in a normal year as far as income.

At least two-thirds of our employees would be eliminated if not the whole 75 year old business would be shut down. We cannot pass on these costs to the consumers are these are basically commodity products that we have two and three steps distribution on, so it just isn't enough margin in the supply chain to keep our business going.

The third reason, or the second reason, is our supply chain. We are in China of our own free will, have partnerships with small family owned businesses in China. These are not state influenced or state driven companies seeking high technology, they are small entrepreneurs like us.

It took us over three decades, almost three decades I should say, to build these relationships and build this supply chain. We've been in China a long time.

In addition to these, obviously these tariffs would put us at a competitive disadvantage to people not having that.

If we went to go rebuild the supply chain, or rebuilding the supply chain, there is virtually no bank that would loan us the money to go build the supply chain that took 25 years to put in place. Or, sacrifice the timeline that we required to rebuild that.

I do not believe the U.S. is cost competitive in these markets nor do I believe it's in our national interest to be cost competitive in these markets. The question isn't if we could change our supply chain from China to the U.S., the question is, why would anybody take that endeavor.

We will not find employees willing to do this type of work funded or cost effectively manage the turn over employees in a low entry level position. The U.S. is a mature advanced country with higher expectations and opportunities for its citizens.

The third reason that we'd like this to be considered is that we are unburdened to do commerce in China or do any business with China. Our products are generally late, low technology products that we source from China.

And they do not, the products do not provide value in and of themselves. They require sophisticated cloud software to add value.

People buy products for the utility. It's the product of the product of the solution that matters. What we're sourcing from China is just a component of our system and our solution we're delivering for people.

My analogy is our phones. They don't work without everything else, the software and the infrastructure to run them.

For those three reasons I'd like to, I'm going to outline irrefutable harm for us not to close business, forcing us to close our business, rebuild the supply chain for late life cycle products and be an unburden to do commerce from China I'd like you to consider. Thank you.

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

MS. PETTIS: I have a question for Mr. Alfonso. You had talked about the wafers and how they have kind of layered wafers, you have the raw silicon wafer and this ultra-thin layer of hyper pure silicon that goes on top of it.

MR. ALFONSO: Yes.

MS. PETTIS: And I guess you raised a question about whether or not it was even considered, a Chinese product. I mean, have you ever gotten a ruling on it or is it coming in right now as a Chinese product?

MR. ALFONSO: We haven't gotten a ruling on that but we're looking to address that further, based on other products in which a similar or an analogous reversal is deemed to be made in China.

So we're looking at that. We're

looking at this situation based on our experience with other products that are generated, the base part, or part of a base part in China, that the government says, oh, that is made in China.

Well, this based part of the ingot is, that's the genesis of the raw silicon wafers. If the ingot is in Taiwan, it's our position potentially that that would take it out of these tariffs.

MS. PETTIS: Okay. Okay. Another, just a quick question. You had said that 65 percent of the supply, of your supply, does come from China. The other 35 percent of your supply, can they ramp up this source to be able to do this or --

MR. ALFONSO: I don't have the percentage but I know it's no -- I know it's not anywhere near possible.

And also, there is a quality issue. So even if they conceivably could ramp it up, as I mentioned, particularly in the automotive industry, the clients, that it's a two year process to get approval --

MS. PETTIS: Yes, sir.

MR. ALFONSO: -- and the level of quality, if you will, is not in that 35 percent.

MS. PETTIS: Okay.

MR. ALFONSO: So if they made it 100 percent, it still would not affect the 65 percent from PRC.

MS. PETTIS: Okay. Thank you, very much.

MR. SULBY: My question is for Mr. Duval. You testified to the fact that suppliers are privately owned companies in China, will have no ability to influence the government of China's decisions and policies, could you explain the premise of that assertion and why they would have no influence?

MR. DUVAL: Simply for the fact that they are not a government-owned subsidiary, so being privately owned has no impact.

MR. SULBY: My second question is you sort of focused your testimony on sort French door refrigerators, aren't there other models and types of refrigerators that would be substitutes for French door refrigerators?

MR. DUVAL: There are. Consumer preference right now is for the French door refrigerator. That is one of the most popular styles out there and the majority of our production comes from China for that popular style.

MR. SULEWSKI: Hello. This question is for Mr. Goodrich. Could you please explain and elaborate why other countries or domestic producers could not supply the products necessary for a semiconductor supply chain?

MR. GOODRICH: Sure. Thank you. So specifically semiconductors out of the 8471 and 8472 were already covered on the first and second tariff list.

So specifically what we are referring to on this third list are printed circuit assemblies, or the circuit boards that have chips on top of them.

Roughly, according to the U.S. Census Bureau data 67 percent of our imports of all printed circuit assemblies come from China. So while there is some capacity for that printed circuit assembly outside of China, the vast majority is in China and that's the world market that serves that.

And, again, the assembly of chips onto a circuit board is one of the lowest value-add parts of the electronic supply chain, so it's not a significant high value part of the electronic supply chain, and, frankly, it's part of the supply chain that China itself wishes to no longer produce and move up the value chain.

CHAIR TSAO: I have a follow-up question. If it is truly the lowest value in terms of the semiconductor supply chain, I mean does that make it easier to move across borders to other countries, is it less capital intensive in terms of building new facilities? I am interested in your views.

MR. GOODRICH: Well, semiconductors themselves, firms, usually do not assemble the semiconductors onto the printed circuit assemblies.

Those are generally a different firm in a different part of the supply chain, generally contract manufacturers, mostly Taiwanese companies actually that specialize in this part of the supply chain.

But the scale of these facilities is large if you think about the worldwide electronics industry. Trillions of dollars in sales of goods have to be assembled and the majority of those are in China.

So in order to be able to scale a facility of that size to be able to qualify for customer standard certification would take a significant amount of time and also those facilities, because of their scale, are still quite expensive.

MR. JOHNSON: For Mr. Husisian, a question. Can you explain what percentage or relative share of the products you are interested in here cannot be sourced from other sources outside of the China or the United States and why you are looking that they can only be sourced in China?

Thank you.

MR. HUSISIAN: Thank you. There is several reasons why it needs to be sourced from China. First of all, it's not like Alpine has a lot of excess capacity.

Modern factories are built to run at close to full capacity and they have a global supply chain that has been built up over years where different factories specialize in different products, so it's not a matter of they can just shift things from China to other places as well.

Secondly, there is a whole supply infrastructure that is available in China that is not available elsewhere that has grown up around the electronics industry in general and that feeds into the Alpine products.

Third, Alpine is part of, it's affiliated with Alps Electronics, which also sources products from within China. And, fourth, it would be costly. I mean it's not like factory capacity comes for free. It would take time.

Sometimes there is qualifications

issues when you are dealing with automotive manufacturers which are predicated on setting up and using a certain facility.

It's just something that would be highly disruptive and expensive, so there is actually very little of the capacity that is dedicated to the United States that could be easily shifted.

In the long run if the tariffs were permanent, which nobody knows what is going to happen, I mean are you going to make decisions right now when you don't know if the tariffs are going to be around for one year, two years, three years, permanently, there is just a lot of uncertainties.

So the only real option in the short and medium term is to try to pass on these costs to the U.S. consumers and impact the price of the automobile.

CHAIR TSAO: This question is for Mr. Mershad. Could you please walk the panel through the existing global suppliers of these products and explain why in the aggregate they could not expand capacity to provide alternative sources of supply?

MR. MERSHAD: Well, there is a couple parts here. From the component level we have Asus, ASRock, and several other companies that build the motherboard and from my experience as I, again, walked the factories in China for like 30 years and I have watched them build their supply chain, and it's a very extensive supply chain with SMT machines and everything that they have developed over the past 30 years, so I don't feel -- And also video cards, that there is any way that those things could be manufactured.

Video cards would be Nvidia, would be a company, and Asus would be another company that develops the video cards.

As far as the finished products, desktops, it would like Dell, Lenovo, and those particular companies that are based in the U.S. but they do most of their manufacturing substantially out of China.

So my experience of being somebody that

has walked the streets and seen these products develop over the last 30 years, that it takes a great infrastructure to be built.

The supply chain is not there, the quality control is not there, there is all kinds of EPA things that will come into play because you have a lot of waste and so forth that is generated out of these factories and contaminants.

So I am not aware of how long or how costly that would be to re-develop that entire supply chain of the United States.

MS. BONNER: This question is for Mr. Samborski. Mr. Samborski, you highlighted your company's role as a small business contractor to the U.S. government.

In your written testimony, and I am not sure in your oral you were able to capture it all, you noted specific terms in U.S. government contracts.

Given your written testimony and comments could you state for the record and also provide any other points that you would like to address how the proposed tariffs would impact your ability to supply existing and future U.S. government clients as a U.S. small business contractor?

MR. ALBIZURES: Yes. In the federal government there is a TAA compliance that we must meet in order to supply these goods to the government. A lot of it is based on the agency itself and the security.

We bring these products in, the components in to assemble those machines. We have several contracts, as you know the federal contracts go for three to five years, with the tariff being imposed to the tune of 25 percent these will impact directly on the contracts that we currently have.

Therefore, there is no other way of getting these components as some of the colleagues here stated. A lot of these components, or the majority of them, or at least the ones that we know, are not being made in the U.S.

So just by having that high impact of

the 10 to 25 percent tariff there is no way of competing against even the likes of Dell, HP, and Apple.

We are once again a small business providing very good pricing and very good products to the U.S. government. These tariffs are going to completely put us out of business if this happens.

So there is no way, there is the purchasing power with those big companies just really is massive as well. So we are already at a disadvantage when it comes to pricing.

MS. BONNER: I have a follow-up then. And I am trying to refer back to your written testimony, and you may have covered it, but in the tariff categories that you are listing, or that you would list in your post-testimony comments, is it impossible for you to find those components anywhere else other than China?

MR. ALBIZURES: Absolutely.

MS. BONNER: That it is impossible you said?

MR. ALBIZURES: It is impossible.

MS. BONNER: Okay.

MR. ALBIZURES: They used to be made in the U.S., now they moved their facility -- They either move facilities to China or they just don't exist here in the U.S. anymore.

MS. BONNER: Okay. In your post-comment submission could you please make sure that you have listed all those components. Thank you.

MR. ALBIZURES: We will. Thank you.

CHAIR TSAO: This question is for Ms. Server from VeriFone. You mentioned that your major competitor is a French company and that it doesn't manufacture in China.

My question to you is does it source, maybe if not the finished product, but does it source components or does it have, does the component have China as part of its supply chain and would the proposed tariff affect your competitor?

MS. SERVER: From our current

information it would not.

MR. BISHOP: Pull your mic a little bit closer for me, please.

MS. SERVER: Oh, sorry about that. So from our current understanding it would not impact them. We are not, obviously, fully aware of their entire supply chain.

We could provide additional information in the comments, but their main manufacturing locations are outside of China and that's the information that we have.

CHAIR TSAO: Where do they manufacture, if you know?

MS. SERVER: One location is Vietnam.

CHAIR TSAO: Thank you.

MS. MARTINICH: Mr. Shekoski, you testified that your company has a long established history of working with your suppliers in China.

However, can you provide some insight on any barriers to importing from alternative global sources?

MR. SHEKOSKI: We at one time imported

from Germany -- precision injection stuff. That has all -- They all started imported from China as well, so I don't know on certain of these codes. We don't know of another source to get them.

MR. BISHOP: We release this panel with our many thanks and we invite the members of Panel 35 to come forward and be seated.

Would the room please come to order. Mr. Chairmen, our first witness on this panel is Jimmy Chittim with Flying Circle. Mr. Chittim, you have five minutes.

MR. CHITTIM: Thank you for providing us this opportunity to testify this morning on an issue that is extremely important for my company and my industry.

My name is Jimmy Chittim. I am President of Flying Circle Bags. Flying Circle is a manufacturer and distributer of soft-sided travel bags that are sold in a variety of stores, foreign and domestic.

Flying Circle is a certified woman-owned small business. We have been in business for 30 years and in that time we have grown from a company of five workers to today where we proudly employ 23 workers here in the United States.

Our company is located in Boerne, Texas, which lies 30 miles north of San Antonio. In our relatively small town we are considered a major employer.

We consider our employees to members of an extended family, of which three members have been with the company since its inception 30 years ago.

Travel goods are luggage, handbags, backpacks, briefcases, wallets, smartphone cases, and other related fashion accessories. Flying Circle strongly opposes the inclusion of travel goods on the proposed $200 billion list.

Ninety-five percent of our product line is made in China. A new punitive tariff on U.S. imports of travel goods from China on top of the high tariffs we, Flying Circle, already pay on these products would impose a huge burden on our company.

There is no other source that can meet

the requirements for our product. When my mother started Flying Circle we sourced our materials domestically and we sewed everything in Texas.

When China became an attractive manufacturing option we stayed in Texas for as long as we could. It became clear very quickly that our competitors who were now established in China were able to produce luggage so inexpensively that we had to make a move or shut the doors.

In 2003 we went to Acuna, Mexico, which is across the border from Del Rio, Texas. We packed up most of our sewing machines and drove them across the border with the hopes of reducing our manufacturing costs.

After two years of cutting and batching in the United States and sewing in Mexico we had made little progress towards becoming competitive on price and it was becoming harder to find accessories like material, zippers, and snaps here in the U.S. at affordable prices.

In 2005 we finally gave in and found a company in Shanghai that we could work with.

Our partners in and around Shanghai are able to produce intricate designs very quickly and at a cost that allows us to be affordable to our customers.

An example of one of those intricate products is this backpack shown here. The skillset to produce a pack like this has slowly migrated out of the workforce over the last 15 years.

Expert sewers have gone on to find other jobs or they have retired. Finding and training someone to sew at this level would be extremely difficult, if not impossible, for a small company in my area.

Additionally, since most of my sewing machines are still in Mexico I would have to repurchase a lot of equipment at a considerable cost. Perhaps the most daunting aspect of recreating a high speed, high capacity sewing operation is machine repair and maintenance.

As anyone who has been around any kind of sewing operation will tell you sewing machines need constant attention and finding a full-time qualified maintenance technician would be next to impossible.

A new 10 percent duty would have been extremely difficult for my company to absorb. With this increased duty to 25 percent we will have no choice but to immediately reduce staffing and attempt to raise prices.

Raising our prices is particularly problematic as our biggest customer is 18 to 35 years old, male, and on a limited income. As a company we have always tried to position ourselves as suppliers of really exciting and functional gear at affordable prices.

Looking closer at the proposed tariffs we already pay about a 17 percent import duty on most of our items. A 42 percent tax on our product would erase any profit margins and would be sustainable for a very short period before we would have to close.

We support the Administration's effort to improve the protection of intellectual property rights in China but we don't believe tariffs on our product will achieve this goal.

Thank you for your time and consideration on this matter.

MR. BISHOP: Thank You, Mr. Chittim. Our next witness is Matt Davis with the Eagle Industrial Group, Inc. Mr. Davis, you have five minutes.

MR. DAVIS: Thank you. Good morning. My name is Matt Davis. I am President of Eagle Industrial Group, Inc., also known as SafeRacks.

After a 10-year career in the United States Air Force my wife and I founded our company to provide innovative storage products to consumers.

Since our beginning in 2006 we have designed many different forms of household racks and shelving. Most notable of these is our overhead garage storage rack, our flagship product.

Exhibit 1 shows an example of this product. That's the poster in front of me. Our design is patented and we patent many of our products we feel have novel innovation.

As a small veteran-owned business we have worked tirelessly to grow our brand and company by bootstrapping, building strong factory relationships in China, and taking care of our customers.

One hundred percent of our products are made in China and are all classified under HTS 9403.20.00. Today SafeRacks is a premier provider of home storage products.

Based in Lake Forest, California, we employ over 70 people and are continuing to grow. Our company's focus is providing solutions to the residential and consumer markets, mostly via e-commerce channels.

SafeRacks products offer American consumer easy, do-it-yourself assembly, and we have a network of contractors to assist with installation.

These products are typically bought online from sites such as Costco, Amazon, Home Depot, and saferacks.com. Our industry is highly competitive and SafeRacks faces extremely low margins.

SafeRacks products sales are incredibly susceptible to minor price changes and the imposition of a duty will not only have a disproportionate adverse impact on U.S. consumers, but harm SafeRacks as well, a U.S. company.

Our consumer will bear the full burden of paying for these tariffs with increased prices. I am here as the little guy on Main Street, a small company amongst major, multi-national corporations and trade organizations.

My testimony probably reflects the same concerns of thousands of companies that are on their heels waiting to see what happens after these hearings.

While I fully support most of the polices of this Administration I strongly urge the USTR not to impose these tariffs on SafeRacks products for three main reasons.

One, there is no risk of technology transfer of intellectual property over the idea of household storage products. These are low-tech, low-margin items.

China is not concerned about our product category nor will a tariff on it shape the course of trade between our nations. The Chinese goals of 2025 almost exclusively focus on high-tech and pharmaceutical industries.

While we do have our own patents and variations of design, little has changed or can be changed or stolen over the idea of a shelf. SafeRacks has never been asked to release proprietary knowledge, property rights, in our 12-year history in China.

Reason two, SafeRacks is a leader in the consumer storage industry, which due to non-existent U.S. production facilities has exclusively produced products in China.

There is no U.S. alternative manufacturing source with capacity and ability to fabricate, coat, package, and distribute our products under the same roof.

The lack of U.S. production for our product lines would mean fabricating, coating, and packaging would be done in separate facilities in the United States, a cost-prohibitive endeavor.

We have explored U.S. production several times, most recently two years ago, and investing in our own factory. And let me make this very clear, we have looked at this many, many times in our history.

On average it was 2-1/2 times the cost to make the product in the U.S., and that's still sourcing the raw material from China.

Everything we make and ship are heavy steel products. The stateside transportation costs alone make local production of these goods prohibitive.

Lastly, and probably the most important reason, is the financial transition on small business. Although tariffs can be implemented on a single day, small business cannot simply cover the rapid increase in inventory costs and maintain their financial covenants to their lenders.

Assuming customers do not react negatively to their new higher prices, it will take a full inventory turnover, sometimes four to six months, to cover the increase costs of inventory caused by a tariff.

Debt to income ratios will fall outside allowable limits. Bankers will very quickly react to the increased risk caused by these tariffs and freeze credit lines, increase interest rates to offset their risk, or they will eliminate credit lines altogether.

This is a real problem for SafeRacks. SafeRacks respectfully requests the USTR exclude residential storage racks under HTS Code 9403.20.00 from the list of proposed goods.

These items will have no impact on the Chinese government to alter or change their policies, practices, and actions on intellectual property violations and trade secrets theft.

The only negative and disproportionate impact will be on SafeRacks, our employees, and the American consumer. Thank you for the opportunity to testify today. I look forward to answering any of your questions.

MR. BISHOP: Thank you, Mr. Davis. Our next witness is Cynthia Gardenhire with Synplus, Inc. Ms. Gardenhire, you have five minutes.

MS. GARDENHIRE: There we go. Thank you very much. My name is Cynthia Gardenhire. I am the Vice President of a company called Synplus in Southern California.

I am here to request, really beg, that HTS Code 4203.10 leather apparel be removed or my company be exempt from the 301 tariff schedule.

I cannot source my product outside of China and a 10 percent, let alone 25 percent, increase will have a significant impact on my consumer. Based on the price elasticity of demand this tariff will put my small business out of business.

At Synplus I have designed and manufactured apparel, mostly leather apparel, for 22 years in two factories in Chengdu, China, Western China.

I joined Synplus in 1996 because it was

one of the first U.S. companies to really understand the opportunity in the U.S. mass market for pig leather garments due to affordability.

Chengdu was the main pork supplier for China so the rawhide supply was large and very consistent. The pig tannery was located near the factories which allowed us vertical control and fast delivery.

We began to design functional coats and fashionable jackets using pig leather to compete with lamb and cow that were the only leathers on the market at the time at four times the price.

I will never forget my first trip to New York to meet with brands and buyers to show them the nice quality pig leather that we could produce in garments and what our pricing was.

Every single brand, every buyer, was just amazed. They were in disbelief. It was a breakthrough in the leather market and I was so proud of the fact that I brought leather apparel to the mass market, to the middle class, to everyone, it wasn't just a product for the wealthy anymore.

We were one of the first companies to manufacture in women's sizing 2 to 32. We wanted to manufacture for everyone, men's up to size 6XL.

We designed and manufactured inexpensive leather coats and our business boomed in cold weather climates. We produce blazers, pants, skirts, and jackets for the working woman that retail between $79 and $159, and they actually want to buy them because they are in colors and not just black.

With pig leather apparel manufacturing my company thrived even through the recession because there is tremendous value for the price in what we produce.

I have no overall control on what the retail prices of my product, but a 10 to 25 percent tariff at wholesale means a 30 to 75 percent increase in the price of my product at retail.

What's going to happen? It's going to move our garments back into an unaffordable price range for the mass market, for the middle class.

They will no longer be able to afford this product.

We have already seen a decrease in the demand for 2019 just based on the suggestion of a tariff. I have extensively researched moving production out of China, through exasperation repeatedly, but in 2009 after the recession I wanted to help our country by moving some of the production here if I could.

So I met with the number one manufacturer of military leather jackets and they had enough leather garment sewing machines, because it's a different type of sewing machine, because they could handle our volume, and their response was, you know, we really don't want to deal in pig leather and we don't want to deal in fashion apparel, and they weren't the first one, they were the first of four.

Then I thought, well, okay, maybe I can secure the rawhide supply and then work backwards from there, so I met with Oscar Mayer. Oscar Mayer refused to change their -- okay, "refused" is not polite -- did not want to change their cutting pattern in processing their hides because they found they could make more money on pork rinds cut in small panels than they could in leather garment manufacturing, which were full panels.

Then in 2013 the Chinese government decided overnight to put an export, to rescind the export rebate to the leather factories, increasing my cost of goods 13 percent overnight.

So once again I was done. I got to move it someplace else. So I started researching what other countries manufacture leather apparel, because it's an art.

India was number one, Pakistan was coming up, Indonesia, and then I found out quickly those countries will not touch pig for religious reasons. So I am stuck in China.

There is no U.S. supplied technology in what we produce, there is no intellectual property of value involved, and after manufacturing in China for over 25 years and watching the government pull funding from different factories in the area, we went from four to two, they have

-- If you put this tariff on the leather apparel industry it will make no difference to them. They will just let the factories close. That's just my opinion.

I wish the HTS Code -- Oh, one more thing. Regarding innovation, this is very interesting because our main tannery in China developed the ability to take a very thin layer of polyurethane and put it on pig leather and what it did was it created an even better garment.

It lasted longer, it was water repellant. It was a leather, water-repellant jacket. The color came out better. The customer loved it, and it was their technology, it was their innovation, not ours.

Those are the jackets that are sitting in front here. Anyway, you know, this is our number one selling leather and I cannot buy it anywhere except for two tanneries in China.

If the HTS Code could be separated out between pig leather, cow leather, and lamb leather you would see quickly what part of the economy you are punishing by putting this tariff on China leather apparel.

It is the middle class, it is the moderate customer.

CHAIR BUTLER: Please conclude.

MS. GARDENHIRE: I am asking the ITC in the name of fairness to all consumers to please consider removing 4203.10.40 from the tariff schedule, or at least exempt my company. Thank you very much.

MR. BISHOP: Thank you, Ms. Gardenhire. Our next witness is Nate Herman with the Travel Goods Association. Mr. Herman, you have five minutes.

MR. HERMAN: Thank you for providing us the opportunity to testify this morning on an issue that is extremely important to our industry.

My name is Nate Herman. I am the Director of Government Relations at the Travel Goods Association. TGA is the international organization for the travel goods industry representing manufacturers, distributors, and retailers of luggage, handbags, backpacks, briefcases, computer bags, totes, wallets, business and travel accessories.

If implemented this 25 percent tariff would be on top of the incredibly high 17.6 percent to 20 percent tariffs we already pay on U.S. imports of travel goods.

Why is this bad? Eighty-four percent of all travel goods sold in the United States today are imported from China. Further, virtually no travel goods have been manufactured in the United States for well over a decade.

Last summer President Trump himself confirmed this when he granted duty-free access for U.S. imports of travel goods from developing countries under the U.S. Generalized System of Preferences Program.

In addition, there is no easy way to quickly move production of travel goods to other sourcing countries. There just isn't the capacity or the capability in the rest of the world to pick up the slack.

Our members are also not really in the position to make such demands of suppliers. Yes, we do have well-known names in our industry, Samsonite, Travelpro, Hartmann, Tumi, Zero Halliburton, Briggs & Riley, Delsey, to name a few.

However, with the exception of the largest brand in our industry, most are small and medium-sized companies and specialty stores with 100 employees or less.

In the fight for scarce factory capacity we are easily outmatched by other much larger industries. What's worse is that even a few alternative sources our industry has are under assault.

For example, this spring President Trump announced the review of GSP eligibility for India, Indonesia, and Thailand, the three major alternative suppliers for travel goods.

If the Trump Administration removes GSP benefits for these countries American travel goods firms will lose most of the viable alternatives they have for China.

So our members will be faced with a situation where they have nowhere to go, no way to absorb this 25 percent tax without raising prices and laying off workers, or chose to go out of business.

I cannot underestimate how the proposed 25 percent tariff is an existential threat to our industry. So I want to provide two examples, and these are big things, I apologize for that.

So this is, what I am holding here and what is on the table here is what's called a Dream Duffel. It is the signature product from a company called Dream Duffel, a small 10-year-old company that employs over 50 people in Plymouth, Minnesota.

Dream Duffel makes travel bags for the competitive dancer or skater. It's a very specialized product. Over 95 percent of Dream Duffel's products are manufactured in China.

For Dream Duffel the cost in capital and human resources to transition its almost 400 individual and unique products to another country would be overwhelming, if not impossible.

Instead, if the 25 percent tariff is imposed Dream Duffel will lose their margins, lose sales, and lay off workers.

So what's on the table now is what is the quintessential travel goods item, a carry-on, roll-aboard from Ricardo Beverly Hills. Ricardo Beverly Hills has been designing and selling luggage and other travel goods for over 40 years.

They are headquartered in Kent, Washington, with 65 employees throughout the country. Over 90 percent of their production comes from China.

They have no alternative but to source products outside the United States and there is not enough manufacturing capacity outside of China to meet their demand either in terms of quantity or in quality.

Ricardo Beverly Hills believes the 25 percent tariffs would result in higher prices, significant lost sales and profits, and layoffs of between 25 and 40 percent of their workforce.

In fact, just the proposal of

additional duties has already resulted in one of Ricardo Beverly Hills's major customers canceling a significant order for the fourth quarter just because Ricardo could not source the product outside of China.

These are just two of the dozens of stories being shared by our members through this Section 301 process.

We support the Administration's efforts to improve the protection of intellectual property rights in China, but we don't believe that devastating an industry that directly employs 100,000 workers in the United States will achieve this goal.

Thank you for your time and consideration in this matter. I would be happy to take any questions.

MR. BISHOP: Thank you, Mr. Herman. Our next witness is Michael Korchmar with the Leather Specialty Company. Mr. Korchmar, you have five minutes.

MR. KORCHMAR: Thank you. But I can

speak loudly. It's not working. There it is, the light's on. No. It just came on. All right, thank you, and sorry for the technical issue there.

I am the CEO of my family's 101-year-old company specializing in the manufacture of travel goods in the USA and in the Dominican Republic.

Our family has been in this business for four generations and I believe we are the oldest surviving USA manufacturer in the category.

I have also served on the Board of Directors and as Chairman of the Travel Goods Association and I am sorry they don't remember that we still make travel goods and luggage in the USA and on this side of the world.

Additionally, I have served as a trade advisor representing my company on an ITAC for over 18 years, so I am no stranger to U.S. trade policy.

As a longstanding U.S. manufacturer my company's position on this issue should be central to the discussion because we have an important base of historical perspective.

We are one of very few U.S.

manufacturers that have survived in the category in the face of Chinese imports that began in earnest in the late 1970s.

In 1976 as I began my career there were more than 60 manufacturers in our category. Today there seem to be less than ten, most of which are early stage businesses or startups.

Beginning in the late 1970s our company's products and designs were routinely duplicated by Chinese manufacturers and quoted directly to our customers at pricing that was so low we believed it had to be below true cost.

We occasionally tested the environment by quoting some products at pricing that was below these costs, which we did solely to shed light on their practices.

We found that China would routinely undercut our pricing so that it would win the bids. We saw this as a predatory trade practice. By 1982 we had lost 30 percent of our sales volume to China and were struggling for survival.

Initially we built production capacity

through a joint venture in China where we produced our most price-sensitive finished products and produced component parts for final assembly in our U.S. plants strictly for the purpose of trying to keep those plants open and maintain U.S. employment.

We know from this China experience that the government was actively intervened to support China-owned companies in our market.

Our experience in China led us to a bit of a moral reckoning as we started to see our joint venture with the communist government as wrong and it ultimately caused us to turn our backs on those profits and close our operation there.

While many U.S. companies have rationalized producing goods in China and profited greatly from it, for us it simply felt unpatriotic and we turned our attention to locating offshore production in a country that shared our democratic values, supported our laws, offered some reduction versus the U.S. in labor costs, and allowed us to use materials of U.S. origin.

This took us to the oldest democracy in the Caribbean, the Dominican Republic, where we currently produce for some of the brands mentioned by my trade association and other brands that compete with our first speaker Stephen up in front of me.

My company has been severely impacted by China's predatory trade practices since the '70s and by 1999 it cost the jobs of 500 U.S. workers in our company alone.

During this Chinese experience we developed the utmost respect for the Chinese people and their culture, however it took great issue with the Chinese government's disregard for intellectual property laws and their clear goal to buy our market.

Now thanks to a new attitude toward trade and trade agreements there is actually renewed interest in made in the USA production. We are increasing U.S. production, hiring more U.S. workers, and teaching them a trade.

We are also increasing production in

our Dominican Republic plant which increases our purchases of U.S. raw materials made by U.S. workers.

These additional duties will help our USA manufacturing and encourage other companies to expand, startup again, and start hiring Americans.

On a related point, the concerns expressed by some China importers who claim that the consumer will be hurt by adding duties to Chinese imports is in our opinion mostly gaslighting.

It should be noted that there has been a clear movement of production from China in our category to other Asian countries over the last ten years, some of which enjoyed GSP status and their goods entered the U.S. market duty free already.

We do not believe that additional duties on our products will have any significant effect on consumer pricing but rather will accelerate the movement of production from China to other countries.

As the demand for production moves geographically some will come to our side of the world again and help rebuild our industry and provide quality skilled jobs for American manufacturing workers both producing finished products and providing raw materials to supply a growing industry in this hemisphere.

Finally, it is important to note that it is nearly impossible for us to export into China due to trade barriers that make our products extremely expensive.

We are confused as to why we should be concerned about increasing tariffs on products from China when China imposes tariffs and barriers on our product, the sum of which are much higher than we charge them.

Finally, I learned yesterday when I was being interviewed by CNN that my position can be perceived as self-serving, like I am a greedy business person.

I would like to state that my support

for tariffs is not good for the long term of my company. Currently we own a market niche and all that these tariffs will do is encourage more expansion of U.S. production and more competition for my company.

My position on this issue stems solely from my concern to do the right thing for my country and for its manufacturing workers.

In sum, China has and does support predatory trade practices that threaten our manufacturing base. China does not support our values or law in the area of IP.

China imposes barriers on our exports into its market that are far greater than those imposed by us and imposing increased duty will not harm the consumer and will help U.S. manufacturing workers. Thank you.

MR. BISHOP: Thank you, Mr. Korchmar. Our next witness is Hun Quach with the Retail Industry Leaders Association. Ms. Quach, you have five minutes.

MS. QUACH: Each day, America's

retailers serve tens of millions of customers, whether shopping in store, online, or from the comfort of their couch, consumers make up roughly 70% of the American economy. No sector cares more about consumers than retail.

As the US economy continues to strengthen and consumer confidence rises, Americans are spending more. But tariffs are a hidden tax that will cut into the streak of the record growth.

Good morning, on behalf of the Retail Industry Leaders Association, thank you for the opportunity to provide the retail perspective on the Administration's proposed 301 action. My name is Hun Quach, I'm Vice-President for International Trade at RILA, a trade association that represents the world's largest and most innovative retail companies, accounting for more than 1.5 trillion dollars in annual sales and millions of American jobs.

If enacted, the Administration's proposed 301 tariffs will cut into the budgets of

American families, especially lower and middle income families, who can ill afford to pay more for everyday consumer goods. The Administration made the commitment to put minimum pain on consumers, and I am here today to urge the Administration to keep that commitment to the American people.

That is why RILA respectfully requests the removal of over 650 tariff lines from the proposed list of products subject to the 301 tariff. The Administration's proposed tariffs will make the items that Americans use every day less affordable.

Tariffs are not the answer in getting China to change their actions. The two previous rounds of tariffs have already proven this. Furthermore, we strongly encourage the Administration to not impose any more tariffs while China and the United States are working on a negotiated settlement.

So instead of telling you about the tariffs today, let me show you how the proposed

301 tariffs will impact the costs of everyday Americans, everyday items that Americans use.

So the alarm clock rings and you wake up to start your day. You back hurts. You need a new mattress? Well, you better buy it soon. Mattresses are on the proposed 301 list. 301 is a bed tax.

You turn on the lights, but that doesn't work. Replacing that lightbulb will be more expensive because of the 301 tariff. Chandeliers, pendants, table lamps -- all on the 301 list. 301 is a double tax every time you turn on your lights.

You stand up and notice the wear on your carpet. Whether your replace it with red oak, or bamboo, or even vinyl flooring, it's going to be more expensive because flooring is on the 301 tariff list, and there's no other place to get the materials, other than China. So you're left without any alternatives. 301 is a flooring tax.

You walk into the bathroom. Everything you need to get ready in the morning, from bar soap to makeup to electric shavers, hair appliances, accessories, even your toilet paper will get hit with a 301 tariff. 301 is TP tax, 301 is a toothbrush tax, 301 is a getting-ready-in-the-morning tax.

Time to get dressed. Replacing your dresser will be even more expensive, because wooden furniture is on the 301 tariff list. Having a baby? Cribs and car seats are also on the list. 301 is a baby tax.

You're greeted by your dog. Hey Bob, he's hungry, but you're out of dog food. Well, dog food's on the proposed 301 tariff list. His leash is too. Don't like dogs? Cat food and cat leashes are also on the list. 301 is a pet tax.

Time to make school lunches. Want a healthy snack? Whether it's frozen, dried, or canned, all varieties of fruits are on the 301 list. Applesauce and fruit cups too. 301 is a fruit tax.

Ran out of sandwich bags? Those are on the 301 tariff list. Can't label the lunchbag either, since plastic labels are also on the 301 list, as are insulated lunchboxes. 301 is a school lunch tax.

Your drink options are limited when both apple juice and orange juice are on the tariff list. Whether you choose water, plastic water bottles will face the 301 tariff. 301 is a beverage tax.

Time for work. Whether you use a handbag, a leather messenger bag, a duffel bag, a tote bag, or even a leather wallet, those'll be all charged with the 301 tariff. 301 is a bag tax.

At work, your office chair breaks. Replacing it will be more expensive because of the 301 tariff, along with chairs, sofas, and patio furniture. 301 is a chair tax.

It's cold and raining. Plastic rain jackets and parkas are on the 301 tariff list. So are scarves, hats, ear muffs, mittens, all items that keep Americans warm, well, not this hat. But warm and protected, gloves, whether they're knit, leather, or woven, 301 is a tax on your winter wardrobe.

When your kids get home, they drop their backpacks. 301 is a backpack tax. There's homework. You need paper? The 301 tariff list covers all types of paper and sizes of paper products, such as paper plates and cups. 301 is a paper tax.

In fact, a vast variety of craft and school supplies are on the 301 tariff list. Paint, glue sticks, binders, plastic rules, tape measures, fabric, even calculators. Parents will pay more for school supplies, and teachers too. 301 is back-to-school teacher tax.

It's dinner time. Healthy proteins like frozen shrimp, salmon, shellfish, even fishsticks, in fact, hundreds of food items are on the tariff list. 301 is a food tax.

In conclusion, we ask that you think of the millions of American families, our customers, who effectively pay the price of any tariffs. Thank you, and I'm happy to answer questions.

MR. BISHOP: Thank you, Ms. Quach.

Our next witness is Hemendrah Shah with Clermont Flock. Mr. Shah, you have five minutes.

MR. SHAH: Thank you. Thank you for this opportunity to represent my company, Claremont Flock, a division of Spectro Coating at this historic hearing. Claremont Flock supports the Administration's objectives to address and eliminating China's unfair intellectual property practices. However, imposing an additional tariff on polyester tow is unlikely to deter that behavior.

It is more likely, however, to cause irreparable harm to Claremont Flock, a family-owned, minority-owned 103 years old company. With ISO 9001 certified US manufacturer of precision cut textile flock fiber. Polyester tow is a basic commodity item with no nexus to the technology transfer intellectual property in innovation basis for this Section 301 action.

Polyester has been in commercial production since 1953. China has long had the technology to manufacture it, and there is no evidence that such technology was acquired in any manner that harmed the intellectual property rights of US entities. The patent on polyester has long since expired.

In fact, the very name polyester is regarded as generic by Federal Trade Commission. The only innovation in polyester is related to trademark products for the consumer market, not fiber at this early stage by policing which is of us one manufacturer who will advance it to new and different products.

China is our only source for imported polyester tow, according to the data obtained from the US International Trade Commission Dataweb, 96% of all polyester tow imported into the US comes from China.

While there is US production of polyester tow, it's not substitutable for us. From China we purchase dry tow for the manufacturing of flock cutting process. US manufacturers produce wet tow, which is cut into staple fiber for yarn spinning.

In our continuous finishing and cutting

process, we apply a combination of chemicals in solution onto the tow prior to cutting, and it is very critical to control the amount of chemicals pickup only possible with the dry tow. If tow is not dry and it contains 20-30% moisture, then it becomes very difficult to control the pickup of chemicals solution and the produced flock would have good treatment for the electrostatic flocking process.

When tow contains high percentage of moisture, then in storage, moisture starts to migrate to the bottom in the package, and ruin the process in our finishing cutting process. Cannot control the chemical pickup due to radiation of moisture in the package.

Our chemical solution contains tannic acids, starch, softener, salt, and the percent as an amount of pickup on the tow is very critical. Additionally, the US-made fiber is not white, but it has blue tint, which is not good for the printing. And not acceptable by our customers.

We compete with the flock imported from

China, Switzerland, Italy, Spain, Turkey, and France with zero import duty. Already we are at global disadvantage due to the general 7.5% retail duty on polyester tow. Our foreign competitors use polyester tow from China and make flock to export to the US.

If the US Government were to place an additional duty of 25% on Chinese tow, our current duty inversion of 7.5% would rise to 32.5% and would almost certainly result in the loss of business. And employment at Claremont Flock.

In 2015, Claremont received authorization from US Trade Zone, both to use FTZ procedures to avoid 7.5% duty on our imports of acrylic and rayon tow. That savings on the 7.5% difference between the tariff and the tow and the tariff on the flock, made Claremont Flock more competitive, business grew, we went from 70 to 100 employees.

In our polyester business, which is larger than our acrylic and rayon business, we still pay 7.5% duty. If 7.5% saving in the small segment resulted in new hires, consider how an additional 25% duty burden on large segment and will negatively affect employment at Claremont.

The only beneficiary for this tariff would be foreign competitors, because all flock comes to this country with zero import duty. Again, thank you for opportunity to address this. If any questions, I'll be glad to answer it.

MR. BISHOP: Thank you, Mr. Shah. Our last witness on this panel is David Sweet with the American Down and Feather Council. Mr. Sweet, you have five minutes.

MR. SWEET: Thank you. My name is David Sweet, I am the Chair of the American Down and Feather Council, a section of the Home Fashion Products Association. I thank the USTR for making time for the Council to be heard at these important hearings this week.

The American Down and Feather Council is a voluntary association of manufacturers of natural-fill bedding products and processors of feathers and down for use in home products. I am here today to tell you that the proposed tariffs on imports of down and feather are only a win for China.

Moreover, they would be a loss for the American worker and the American consumer. US textile companies import feathers and down to make natural-fill bedding products in US factories. We need to import feather and down because not enough are produced in the USA to satisfy the demand for the finished products that our market consumes.

Feathers and down are a byproduct of the food supply chain. The US produces less than ten percent of the feathers and down needed to supply our own market. China produces over 80% of the feathers and down in the world, and for this reason, China's the largest supplier to the US and nearly all other countries of feather and down.

Until every American starts eating two ducks per year, we are going to need to source feathers and down in countries where people consume duck meat. Now, while I am a fan of duck, we don't see this change in meat consumption happening any time in our near future.

The proposed tariffs on feather and down filling materials would hurt American factories and affect thousands of American jobs. If implemented, the proposed tariffs would only help make Chinese pillow and comforter factories more competitive with their exports to the USA. Because there are no additional tariffs being proposed no pre-filled, made-in-China pillows and comforters. I repeat, no additional tariffs on ready for sale, made in China products.

So moreover, these proposed tariffs would create a competitive advantage for China that did not previously exist. Yesterday I listened to American Down and Feather Council member company Downlite testimony to this committee.

In that testimony, they stated they employ 600 Americans in five factories throughout the USA. That gave me pause. It did so because I am keenly aware of just how much of an advantage this tariff would be for the Chinese competition that they face.

Chinese companies are actively selling China-made comforters and pillows to American retailers, hotels, and even directly to American consumers. This tariff would give Chinese companies a great advantage and put those 600 American factory manufacturing jobs and thousands more at risk.

There will be nowhere to go with a cost increase of 25% of our key ingredient but directly to our customer, the American consumer. Retailers and hoteliers will try to avoid price increases by shifting their purchasing programs to direct imports of finished bedding products.

Because China is the largest producer of feathers and down and has the machinery to make the products, it will be logical to assume the orders will go to China, and not to American textile factories, who are handicapped by this proposed tariff.

The American Down and Feather Council supports, we support open and free global markets. We also believe global trade should be fair. We want to emphasize to the Committee that the proposed tariff on feathers and down will have unintended consequences, consequences that are a great threat to the American worker and come at a significant cost to the American consumer.

Committee, you hold the future of our industry in your hands. Please protect our small businesses. We'll keep you sleeping well, we assure you. And please protect the American worker. Respectfully, we ask that the feather and down HTS code submitted in our written testimony be removed from the tariff list. Again, thank you for your time.

MS. BELLAMY: That concludes this panel.

MS. BONNER: This question is for Mr. Chittim. Have you explored the possibility of sourcing your product from other countries, including those that benefit from duty-free entry to the United States of these products, pursuant to US free trade agreements, or programs such as the generalized system of preferences?

And if so, were there any programs offered in China, such as an export rebate or other programs that made the 17% tariff make sense?

MR. CHITTIM: Thank you for the question. Over the years we, of course, as I mentioned in my testimony, did manufacture in Mexico utilizing NAFTA. And that was problematic in a couple different ways and didn't provide us with the cost savings that we were looking for.

I also have explored manufacturing in Vietnam. And I found a couple places that were interested in our products, but once we went through the sampling and counter-sampling process and I landed the product at our door, it was still extremely expensive. It wasn't a whole lot less than sewing it myself or going to Mexico with it.

And I'm sorry, I don't remember the second part of your question.

MS. BONNER: It was were there any programs offered by the Chinese Government that helped bring down that cost or you know, make that 17% import duty not, you know, so much of an issue, versus duty-free opportunities.

And if I could just state now, I do have a follow-up for your post-comment submission. If you could also detail for us what were those issues with NAFTA as a small business that made it not cost competitive for you to be to source from our partner? Thank you.

MR. CHITTIM: I'm not aware of any programs that the Chinese Government was offering to help mitigate the 17%. There may be some. I was never made aware of any.

MS. BONNER: So you were working with a local partner that was managing all of those activities for you?

MR. CHITTIM: Yes.

MS. BONNER: Okay, thank you. Thanks.

MS. PETTIS: I have a question for Mr. Davis. I know you've talked that, you've said that 100% of your product is manufactured in China. And had you looked for any other -- outside of China for your production? Or as you were setting up or as you've been going on?

MR. DAVIS: Yes, we have. We've looked at Thailand, we looked at Vietnam and Mexico. Thailand and Vietnam both get their raw material from China anyway, and so we're paying that additional transportation cost from China to those countries, and then a further distance all the way to our ports.

We looked at Mexico and it was about 30-50% more expensive because those facilities, they either make one of our components and not the other, or they'll paint product and not powder-coat. And so we're still looking at manufacturing all the parts that go into our box in separate facilities shipping to one facilities, packaging, and then to the US. Where in China we can do everything under one roof.

MS. PETTIS: Yeah, okay.

MR. DAVIS: That was the same problem in the US.

MS. PETTIS: And as a follow-up, you have just the one HTS code, and do you have any idea what percentage of your product actually fits within that HTS code? Are you, you know, are you just a small part of it or what?

MR. DAVIS: I do not know but I will find out.

MS. PETTIS: Okay.

MR. DAVIS: And I'll put it in the post-comment briefs.

MS. PETTIS: Okay, great, thank you.

MR. DAVIS: It's a basket category, I'm pretty sure.

MS. PETTIS: You're saying it's a very big category.

MR. DAVIS: It's a pretty big category.

MS. PETTIS: Okay. Thank you.

MS. HEINZEN: This question is for Ms. Gardenhire. How has the cost of the production of the leather coats and jackets changed in the 22 years since you've been in business? And have you explored countries other than India, Pakistan, and Indonesia?

And you mentioned looking into US production in 2009, and I was wondering if you'd had an opportunity to revisit US production.

MS. GARDENHIRE: Thank you for the question. Actually yes, the cost of producing leather apparel in China has increased almost 25% since I started. We have, you know, and the consumer adjusted proportionately, but that's over 22 years.

As far as trying to move the production out of China, we've tried Vancouver. There was a big influx of Chinese factories that moved into Canada. We really faced two problems there. Number one is we have to import the hides. And when you import the hides, you face two problems. One is that how they cut the hide in China, they've had so much experience that you get a 20-30% cutting loss just on the hide alone.

Also, they're becomes a question of what is cuttable, what is not cuttable. Besides just pattern pieces and how they fit on the hide, they'll consider a lot of the hide not cuttable. So you lose up to 40% of your skins. You ship in 20,000 square feet, and they cut 15. I mean, it's virtually impossible. The same thing happened in Mexico.

We placed small made in America programs in Los Angeles, but the number of factories that are willing to cut leather in Los Angeles continue to decline. Plus, there is just a constant march of minimum wage going up in California. So I wish there was a solution. Did I answer all your questions? Thank you.

MR. JAMES JOHNSON: I have a follow up on that. I have --- sorry, you indicated that there's no breakout in the HS code you're particularly interested in products made with pig leather and another type. Do you have or could you include in your written follow-up any information regarding the share that items made with pig leather would be of that total category? Thank you.

MS. GARDENHIRE: I don't know that I understand your question.

MR. JAMES JOHNSON: The HS code you're looking at --

MS. GARDENHIRE: Right.

MR. JAMES JOHNSON: 42031040.

MS. GARDENHIRE: 1040, uh huh.

MR. JAMES JOHNSON: You indicated that there's no breakout within that for products made with pig leather.

MS. GARDENHIRE: Which skin.

MR. JAMES JOHNSON: And I was wondering if you had any information about the share, the product, your products, what share of that total category it is.

MS. GARDENHIRE: What percentage pig is of the total imports in leather apparel?

MR. JAMES JOHNSON: Yes.

MS. GARDENHIRE: I'll research it. Thank you.

MR. JAMES JOHNSON: Thank you.

MR. SULBY: My question is for Mr. Herman. Could you, from an industry-wide perspective, identify any noteworthy trends in recent years with regards to sourcing of travel goods? For example, your members diversifying their sourcing of travel goods, are they utilizing the new GSP coverage, etc.?

MR. HERMAN: So yes, we were heavily involved in getting travel goods added to the US generalized system of preferences program. Regrettably, once it was approved by Congress, it was a very long process to get it approved by the Administration so that companies could start benefitting.

In fact, it was just last summer, last July where US travel goods imports from all GSP countries were eligible for benefits. So it's been a very short amount of time, and then the program expired in January. And then eventually we started, so it's been a very choppy process since GSP came online for travel goods.

However, yes, people are looking very closely at a number of GSP countries for sourcing. Again, as I mentioned in my testimony, three of those key suppliers, India, Indonesia, and Thailand, India being by far the biggest supplier of travel goods under GSP, is under review now by the Trump Administration.

And so if those benefits are withdrawn, all the work we're trying to do to diversify away from China will be sort of thrown out the window. But we are looking at other GSP countries as well, but again, today 84% of all US travel goods imports are still coming from China.

MR. SULBY: And have there been any other non-GSP related trends in sourcing?

MR. HERMAN: Again, as Jimmy mentioned, there's been a lot of people looking at Vietnam. It has not worked as well as people were hoping. They were trying to, travel goods was trying to follow the trends in apparel and footwear with Vietnam, and it has not really worked as well as hoped. And also, because we're a small industry, we've been priced out of a lot of factories in Vietnam because of apparel and footwear.

We've also looked into Central America. And those have not worked out as well, mainly for the same reasons pointed out by Jimmy is that, with any of the problems he had in Mexico, that it's just not, they're strictly an assembly operation. They're not really a cut-and-sew operation.

And so it's a lot of work to make something in those countries and it wasn't cost, it didn't make sense from a cost perspective.

MS. QUACH: Mr. Chairman, can I contribute to that response?

CHAIR BUTLER: Please.

MS. QUACH: Thank you. Look, I think that I associate myself and agree with what my colleague has outlined here. I think that, you know, using Vietnam is a really good example of where it could be an alternative source for some of the products that we've highlighted that are on the 650 tariff lines that we have requested to be removed from the proposed list.

The challenge is that it's not like it's an untapped Mecca, you know, is what our companies have told us. Vietnam has capacity to produce apparel and footwear and some of these other products that could potentially get slapped with a 25% tariff.

The challenge is is that, well, two challenges that I'd like to highlight, in addition to several others. The first challenge is, you know, moving that production from China to a country like Vietnam is going to take a significant amount of time.

You know, for products like travel goods is a good example, we are concerned about that too. You know, the specifications that airlines have with respect to making sure it fits into your overhead carrying zone, making sure that it fits the weight requirements, all of those types of things take time.

In addition to that, we want to make sure that it's at the quality that we all need. So that takes time as well to make sure that the component parts are all part of or within that ecosystem, and that ecosystem already exists right now in China. And that's one of the reasons why that has, China has a market dominance there.

And then the second piece that I wanted

to highlight too is that, you know, if you do move, any our retailers, suppliers do choose to move to Vietnam or any other country, I think the key question for them is how long are these tariffs going to be in place?

Because if you are going to make the investments to move your production, retrain workers, find new suppliers, testing capacity, all of these other factors to ensure -- and also the social compliance piece of this.

You're going to invest of all of that, but these tariffs are going to be in place for six months, a year, three years, five years? All of those things will be part of the factors that go into a company's decisionmaking as to whether or not they move outside of China.

So I just wanted to convey those two pieces to add to my colleague's comments.

MR. SULEWSKI: Hello, this question is for Mr. Korchmar. Where do you source the leather for the travel goods you make in the United States and the Dominican Republic?

MR. KORCHMAR: 98.5% from the United States of America.

MR. SULEWSKI: And in your testimony, you stated you had been impacted by China's predatory marketing practices. Can you please elaborate on what you mean by that?

MR. KORCHMAR: I came in in '76, and by 1982, we'd lost 30% of our volume to China. By 1991, we closed one plant, with all the volume being taken by China. And we're struggling to compete out of the Dominican Republic against China.

So we were not impacted, we were virtually crushed. We went from 500 American workers to six. Now we're, in the US, now we're up to almost 40 again, almost half of those being hired within the last year and a half to two years. So we're growing again rapidly.

Now in response to, if I may, in response to a couple of these other questions regarding Central American free trade countries, obviously we're in DRCAFTA in the Dominican

Republic. We employ almost 400 people. Cut five million feet of leather a year. Make ballistic nylon luggage for the most prestigious brand in the world.

We're not hearing from all these companies who are supposed to be aggressively trying to source on this side of the world. We have the capabilities and ability, and Steven, I'll leave you with a card, because I sure hope I get to hear from you. Thank you.

MS. HEINZEN: This is for Ms. Quach. Current, you testified, or I'm sorry, you have identified a large array of products that your association would like to see removed from the list.

Given that the current list already excludes apparel and footwear and many other consumer products, are there any products in which your association believes that higher tariffs on imports from China might improve US competitiveness?

MS. QUACH: Thank you for the question. For retailers, we've seen record growth over the last several years of the US economy. No question, that has been supported by US consumer purchases. And we fear that the results of these tariffs, the imposition of these tariffs, could potentially dampen those retail sales. Could potentially dampen our US GDP growth.

We're also concerned about that potential growth impacting our sales, and therefore our US workforce. For retailers, as you know, we operate on razor-thin margins. And so making sure that our customers get the quality at the price that they are looking for in the timeline that they are looking for, it does require additional planning.

And so for us, when we're looking at these products on this list, we're continually reminded of the Administration's commitment to try to maximize pressure on US -- maximize pressure on China, minimize pressure on US consumers. And so for us, we're confused as to why the Administration would be willing to sacrifice US consumers and put them in the crosshairs in this intellectual property fight.

Several of the products that you see here in front of you, in front of me, are not products that are in the high tech industry. And so for us, we're confused. And we really are trying to make sure that not only the Committee here, but American consumers understand the potential impact of these tariffs.

I would also say, you know, as a mitigation strategy, you know, folks are looking, retailers are looking at some of these alternative sources. The problem for us is that the speed at which these tariffs are being imposed creates significant turmoil when it comes to planning.

So for example, under Tranche 1 of the first $34 billion worth of tariffs, we had three weeks' notice prior to those tariffs being imposed. And so all of that, all of the products that were subject to the 25% tariff were already on ships destined for the United States.

For Tranche 2, for the 16 billion that went into effect yesterday, two weeks, 15 days' notice. And so for those products, there was nothing that our US retailers or US importers could do to try to mitigate that.

So for us, we're really focused on the --- making sure that we're engaged in every single step of this process, making sure that we're sharing with you all the potential impact on consumers and the retail sector as we support the growth of the US economy.

We're making sure that we are part of the product exclusion process, making sure you're aware of the thousands of potential product exclusions that you're going to receive when we're talking about things like, on Tranche 2, you know, stickers. I've mentioned this to a few of the Committee members already.

You know, when we do a product exclusion, do you want it to be round stickers of less than one inch in packs of two? Fifty? Packs of a hundred? Do you want them to be less than three inches? Four inches? What is the CBP determination when it comes to interpreting a product like this during a product exclusion process?

And then finally, in the last piece, we want to make sure that as these tariffs are being implemented, we're reminding the Administration to keep their eye on the ball, and that is changing China's practices as it relates to their intellectual property enforcement and their ability to protect US innovation.

We are very supportive of the Administration's efforts of that, but we just don't want to sacrifice and put American consumers in the crosshairs. Thank you.

MS. MARTINICH: I have a question for Mr. Shah. You testified that the type of polyester tow that you use to product flock is not available, is not produced domestically. Could you please tell us, was this product, was the dry tow previously available in the US? And if it was, when did the production cease?

MS. SHAH: It was available previously from DuPont. And when they sold the business, this fiber business to Koch Brothers, I think that was about eight or ten years ago. So they stopped making it. And there was another company, it was Wellman, and they also went out of business. So there's nobody else left to make the dry tow in the USA.

MS. MARTINICH: Follow-up question, the DuPont production that was sold, so that facility no longer produces the dry tow, or could it if you -- do you know?

MS. SHAH: Yeah, they do not make the tow anymore. And that's also very small, so they do not want to keep that investment tied up for the tow.

MS. MARTINICH: Thank you very much.

MR. JAMES JOHNSON: My question is for Mr. Sweet. You indicated that the US produces only about ten percent of the down that is used domestically. And then also that China produces 80% of the global total.

Of the other 20% that's produced globally, how does that compare to the deficit in the US? I mean, what share of that 20% are US total imports? Thank you.

MR. SWEET: So the US imports 16, I believe it's point, it's in my written testimony, but I believe it's 16.4 million kilos of feather and down. We produce, I think it's 1.2 million usable pounds of feathers.

Now, there's quite a bit of loss when you take out the different parts of plumage that come after, in the cleaning process after humane euthanasia of a bird that are eliminated. You know, some 40%.

Of the total worldwide production, you know, if we, if the US companies went out and bought every, it's hard to say exactly what the US, the production is worldwide everywhere, every year. But if the companies in the US went out on a buying blitz and tried to buy every feather from every other country, which of course we would try to do if this went into place, we would meet very stiff local competition.

I'll use the example of Hungary and

Poland in the European Union. So Hungary and Poland are large producers of poultry for the meat supply, the meat supply chain throughout the European Union. Those feathers are very tough to get.

We see continued reduction in import of those feathers over the last few decades because their production in some cases has reduced. And the local markets, let's say if you're a German processor of feather and down, you manufacture pillows and comforters, you want to buy from Poland, not from China. So you try to buy as much as you can from Poland.

So there's stiff local competition in every market for these regional producers of feathers and down. You know, it's 80% was a conservative number because I wanted us to be, the Council to be conservative in our numbers. Many estimated as much as 87% of worldwide production.

So three ducks, they eat three ducks per person in China with 1.4 billion people. That's where the feathers are. So they are the main supplier to the world because they have a surplus, more than what their market needs of this commodity.

MS. QUACH: Mr. Chairman, I'm sorry to interrupt again. I realize that I didn't answer your question about apparel and footwear. And I do, I would be remiss by not showing our appreciation, the retailers' appreciation for the Administration's decision to withhold tariffs or not put tariffs on products like clothing, apparel, and toys.

I make reference to a letter that 25 of America's top retailers and brands, in a letter that we had sent to the President back in March asking him to spare those products from being put on his tariff list, and I would be remiss by now showing some, showing our appreciation for those products not being on this list.

But I would just say, I would just add that, you know, putting those products on a list of products proposed to be assessed a 10, 25, 35, whatever the number will be on these products would easily wipe out the benefits of the President's tax cuts that he had instituted. So I just wanted to make sure that I answer your questions. Thank you.

CHAIR BUTLER: Thank you, thank you. That's it. We're in recess now for 30 minutes.

MR. BISHOP: Yes, we will resume at ten minutes after one.

(Whereupon, the above-entitled matter went off the record at 12:41 p.m. and resumed at 1:09 p.m.)

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

MS. PSILLOS: Kate Psillos, U.S. Department of Commerce.

MS. HOLMAN: Amy Holman, U.S. Department of State.

MS. KNISLEY: Shelbi Knisley, USDA.

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

CHAIR BUSIS: Bill Busis, USTR. Mr. Bishop, you may call the panel.

MR. BISHOP: Mr. Chairman, our first witness on this panel is S. George Alfonso, on behalf of Sommers, Inc. Mr. Alfonso, you have five minutes.

MR. ALFONSO: Thank you. My name is S. George Alfonso, I'm a Counsel with Braumiller Law Group and I represent Sommers, Inc., which is Headquartered in Coral Gables, Florida.

Sommers has been in business for over 100 years, manufacturing and market textile products and presently imports a variety of non-woven products from China, including 100 percent polyester spun-bound point- bond, cross-lapped spun lace, and cross-lapped needled non-wovens.

Sommers products are classified under Subheadings 5603.11.00 through 5603.14.90 under five separate Subheadings, all which represent non-woven products and a range of basis weights.

Applications for Sommers' non-woven products include uses in automotive interiors, filtration media, the construction industry, and the medical field.

Spun-down, point-bond polyester non-wovens are made of polyester filaments that are bonded together with hundreds of thousands of points or welds in the manufacturing process, which imparts essential and desirable properties in the material.

Spun-lace non-wovens and needled non-wovens purchased by Sommers are made from manmade or natural fibers that are formed into a web with fibers and cross-lapped orientation, meaning the fibers are laid perpendicular to one another. The spun-bound and spun lace products Sommers purchases must be rigid specifications in terms of product bases, weight, strength, and stretch properties, air and liquid permeability in color.

Sommers' customers demand that Sommers provide products that are consistent and identical in terms of these properties and in nearly all cases, substitution of a product is expressly and contractually prohibited.

U.S.A. manufacturers pioneered spun-down bonded flat-bond polyester non-wovens, which are very different than the point bond variety and continue to focus on production of this type of non-woven, essentially leaving foreign manufacturers to produce the point bond variety.

These include manufacturers in Indonesia and Turkey, however, due to Sommers' critical specifications in terms of product performance, only facilities in China have proven their ability to consistently and satisfactorily meet Sommers' requirements in terms of product performance and ability to provide the adequate supply.

This is also true for certain needle products which are made in the U.S. but not in the required quality in light of the weights needed for Sommers' applications.

Sommers has attempted to source the needle varieties in the U.S. but repeatedly has been unable to locate a source that could meet its specifications for lightweight and quality.

Sommers is a supplier to various Tier 1 and Tier 2 automotive component suppliers and nearly without exception, all the customers do not permit substitution of materials, nor increases in prices.

Sommers believes it might be able to eventually re-source some of its products, however, to do this would require Sommers to first identify viable manufacturers then likely make a significant investment and order for the manufacturer to produce the products that meet Sommers exact specifications and then the product would have to be tested and verified before it could be approved by the customer.

A process which can take years. In the meantime, to satisfy current long-term contractual obligations with its customers, Sommers will be forced to continue to purchase from its established and qualified sources in China and pay the 10 to 25 percent tariff until the conclusion of the above time, consuming expensive validation of any non-PRC-manufactured product.

Therefore, imposing a tariff on these products would only harm Sommers and would not have the desired punitive effect on China that might cause them to reconsider their unfair trade practices actions.

Importantly, while the non-woven products in Sommers markets are of critical importance to Sommers customers, the underlying manufacturing technology is well established and the production of the material in the PRC does not present any risk at all of the transfer of advanced technology or the improper appropriation of any patented technology, nor does the product or technology represent industrially significant technology related to China's Made in 2025 industrial policy program.

In conclusion, the proposed tariffs on the subject of non-woven fabrics, especially the 25 percent tariff, would create the potential for a significant disruption of Sommers' abilities to serve its customers through previously agreed upon long-term contracts and provide the elite level of products they need to produce their downstream products. This would have significant negative effect on U.S. consumers.

Further, even if Sommers were able to obtain a price increase from its customers, a 10 to 25 percent tariff cost will likely cause many of Sommers customers to look to other global sources of supply as well as jeopardize their current customer contracts as their customers would be able to source the requirements from the PRC without facing tariffs, thereby putting Sommers entire business at risk.

Thank you.

MR. BISHOP: Thank you, Mr. Alfonso. Our next witness is Kevin Farrelly with Crosman Corporation. Mr. Farrelly, you have five minutes.

MR. FARRELLY: Thank you and thank you for the opportunity to speak with you today. I'm Kevin Farrelly, VP of Operations for Crosman Corporation.

Crosman Corporation is the leading provider of air guns, consumer optics, consumer lasers and archery products. We are in fact the only mass production air gun company in the world to manufacture air guns in the United States and we've been doing so for almost 100 years.

Crosman Corporation has operations in upstate New York and we employ about 280 people. Additionally, we have a foreign trade zone in both locations that we've established in enabling us to be cost-competitive with many of our foreign-sourced competitors.

Our belief that including HTS Code 90138090 parts and accessories of liquid crystal devices and optical appliances and instruments in the proposed regulation is inappropriate and should be removed from the annex.

Many of the items imported under HTS Code for our company are components used in the assembly of low to mid and consumer laser products, and are not manufactured in the United States.

Therefore, including this Code will increase manufacturing cost, resulting in a negative consumer impact, which goes against the supplementary information.

Crosman Corporation acquired a laser company in July of 2017. We were proud that we maintained all the U.S. manufacturing positions and operational positions of the acquired company, and since then, we've actually added manufacturing jobs.

The increased duty rate and subsequent increase in U.S. manufacturing product costs will reduce laser product demand and cause disproportionate harm to our business.

The HTS Code 90138090 is included in the regulation and is subjected to a 25 percent increase. Currently, it's a 4.5 percent and that will go up to a 29.5 percent.

It would make the laser products uncompetitive if we continue to manufacture these finished laser products in Bloomfield, New York.

We, as one of the few significant U.S. manufacturers and assemblers of low to mid-end laser products may need to move production offshore, resulting in loss of U.S. jobs.

Additionally, reviewing the original intent of the document which states that trade analysts from several U.S. Government Agencies identified products that benefit from Chinese industrial policies, including Made In China 2025, the list was defined by removing specific products identified by analysts as likely to cause a disruption in the U.S. economy.

We do not believe that the optical modules benefit from the Chinese trade policy, however, inclusion of the optical appliance in the list of tariff will increase and cause disruptions for the company.

In conclusion, we believe the inclusion of this HTS Code in the list of tariff increases will cause harm to those U.S. consumers, our local company, and will result in loss of jobs.

Thank you for your consideration and please let me know if you have any questions.

MR. BISHOP: Thank you, Mr. Farrelly. Our next witness is Brenda Jacobs on behalf of Oriental Rug Importers Association. Ms. Jacobs, you have five minutes.

MS. JACOBS: Thank you. On behalf of the Oriental Rug Importers Association, ORIA, I appreciate this opportunity to explain why rugs classified in Chapter 57 of the harmonized tariff schedule should not be included in the proposed action against China.

ORIA is a national trade association formed in 1958 to foster ethical business practices and to promote the best interest of the Oriental Rug Trade in the United States and in countries that produce these rugs.

ORIA's membership consists of over 60 leading U.S.-based importers of handmade and other carpets.

Their facilities, many of which are best characterized as small businesses, are located across the United States, and their products sell in retail in all of the 50 states. Many, if not most, of the ORIA members are responsible for the design of the rugs that they import.

For these companies, therefore, all of

their designs are of U.S. origin, yet, not one -- and we polled them -- has identified an instance in which their designs were copied illegally by a Chinese supplier.

Of course, carpet designs are not high-tech; they're not cutting-edge technology at all. Carpets and rugs are not the sort of product that were the subject or the focus of the administration's investigation into China's intellectual property rights practices.

We are not talking about technology transfers in exchange for access to the Chinese market. Instead, the designs that ORIA Members are able to offer American consumers reflect American tastes, American trends.

ORIA Members cannot fathom how imposing crippling tariffs on the products that are the lifeblood of their businesses will serve as an incentive for the Chinese Government to reach an agreement with the United States under which China will reform its IPR practices.

Permit me to provide you with a few

examples, very specific examples of how a 10 percent, much less a 25 percent, tariff on rugs made in China would harm the ORIA Member companies.

You've already received a letter from Nourison Industries which employs 360 people in the United States and has facilities in Georgia and New Jersey.

Nourison imports from China rugs that are either hand-tufted, machine-made, or made by hand with power tools. These are rugs that serve budget-conscious consumers and they are essential to Nourison's viability.

Nourison is responsible for many of the designs used in those rugs which means that not only are these rugs important for ensuring Nourison a steady source of revenue and sales, they're also the source of well-paying design jobs in the United States, in addition, of course, to the sales and logistics jobs involved in importing and retailing these items.

For Nourison, although the economy has improved since the Great Recession, the rug business has been slower to recover. And this business is among the first to fall victim when consumers become nervous about their futures. It's a discretionary purchase.

As of early this month, the company had millions of dollars' worth of rugs on order from China. With lead times for hand-tufted rugs at six months and for machine-made rugs at three months, they have a lot of exposure if the administrations were to move forward against Chapter 57.

Couristan, another ORIA Member with showrooms across the country, has a joint venture in China that has been in place since 2008. That factory produces a line of carpets known as the Axminster line. It's classified under HTSUS 5702312000.

There is no production in the United States of this type of carpet. These are custom-made carpets designed by Couristan which then licenses the designs primarily to major hotel brands.

Couristan places these orders as long as a year in advance. The company currently has millions of dollars' worth of these carpets on order.

Tariffs of 10 percent or higher on these already expensive carpets place at risk the jobs of Couristan's more than 20 designers, as well as those of Couristan's 30 or so sales representatives across the country.

Another ORIA Member, North-Carolina-based Capel, Incorporated, calls itself "America's rug company."

For them, the potential inability to affordably source loop-pile construction rugs of manmade fiber carpets that are classified under 5701902030 is a significant concern. Capel has a licensing arrangement with U.S. designer Anthony Barata, who designs themed patterns with a Coastal U.S. aesthetic.

MR. BISHOP: Ms. Jacobs, if you could please conclude?

MR. JACOBS: Sure. The average unit

sales has reduced over the last few years since the recession. They can't afford to take a further cut. Thank you.

MR. BISHOP: Thank you, Ms. Jacobs. Our next witness is AJ Khubani with Telebrands Corporation. Mr. Khubani, you have five minutes.

MR. KHUBANI: Good afternoon, my name is AJ Khubani, I'm the founder and CEO of Telebrands Corporation, a U.S. company that employs 100 people and has been in business for over 35 years.

Our innovative products are promoted heavily on TV and social media. Consumers purchase our products by phone, online and in retail chains such as Walmart, Target, Bed, Bath, and Beyond, and Walgreens.

For over three decades, Telebrands have sold some of the most exciting as-seen-on-TV consumer products including the pocket hose, expandable garden hose, the atomic beam flashlight, the Bavarian-edge knife sharpener and DermaSuction.

Telebrands regularly reaches out to

U.S. inventors to help them bring new ideas to market.

An enormous amount of effort goes into developing, designing, engineering, packaging and test marketing a new product before it can be successfully brought to market. We spare no expense to apply for patents, trademarks and copyrights on our products.

Furthermore, we spend an enormous amount of time and money to ensure that our products do not infringe on the intellectual property rights of others and our products comply with all U.S. Government regulations.

Unfortunately, recently, our business has been devastated by the rapid growth of counterfeits sold by entities based in China directly to U.S. consumers on Amazon.

What we spend an enormous amount of time, effort, and money on, Chinese entities simply take for free.

They make shoddy copies of our products, blatantly infringe our intellectual property rights, and sell them on Amazon at a fraction of our price.

Surprisingly, they do so within weeks of our product launch with no legal consequence. We cannot enforce our U.S. rights against entities based in China.

Amazon has no responsibility under the law because they're simply a marketplace that connects buyer and seller. As a result, billions of dollars of counterfeit products are sold on Amazon annually.

The imposition of the proposed 301 tariffs will further exacerbate the disadvantages that legitimate U.S. companies like Telebrands have in the face of the underhanded import practices of Chinese counterfeiters that have ready access to U.S. consumers through Amazon. Some of these practices are the Chinese counterfeiters avoid U.S. duties by taking advantage of the 321 duty exemption for imports valued under $800.

This is accomplished by shipping directly to U.S. consumers from China using favorable rates with the U.S. Postal Service, reaching consumers anywhere in the U.S.A. within just a few days at a very reasonable cost.

Even when Chinese counterfeiters ship in bulk, they are notorious for mis-describing and undervaluing merchandise with U.S. customs. They have little fear of consequence from U.S. customs because they are based in China out of the jurisdiction of the U.S. Government.

These counterfeit goods enter the country without proper customs clearance and without reporting to agencies such as the FDA, the USDA, the EPA, the CPSC, and the FTC.

Many counterfeits are unsafe and non-compliant with U.S. Government regulations. Chinese entities are out of the jurisdiction of U.S. regulators and, therefore, feel secure.

As an example, our DermaSuction product must be made in a registered medical device facility that is regulated by the FDA. The Chinese copycats disregard such regulations. Our biggest counterfeit problem comes from Chinese entities that sell on Amazon's marketplace. Amazon knows about this but takes no responsibility because they are just a middle-man marketplace, neither buyer nor seller.

The U.S. Government also knows this but has taken no enforcement action against Amazon despite the fact that they are flagrant vehicle-to-pedal counterfeit goods.

In conclusion, a 25 percent additional tax on Telebrands products will only exacerbate the current disadvantage that it faces against Chinese counterfeiters.

Telebrands will pay normal duties, plus the additional 25 percent duty on the full legitimate value of the merchandise that they import.

Chinese counterfeiters, on the other hand, will continue to pay zero duty on the goods they ship directly to U.S. consumers. The new 25 percent tax will further incentivize Chinese entities to cheat on bulk shipments.

The new 25 percent tax will give Chinese counterfeiters an even bigger advantage over law-abiding U.S. businesses. U.S. businesses will suffer by paying higher taxes on legitimate merchandise.

They will see product lifecycles decimated as the price in gap widens between legitimate and illegal products sold by Chinese counterfeiters.

The high cost of developing and launching consumer products will be unsustainable for our company. The U.S. Government needs to level the playing field between the U.S. and Chinese entities. The 25 percent tax takes us in the opposite direction, giving an advantage to the Chinese counterfeiters.

MR. BISHOP: Thank you, Mr. Khubani. Our next witness is Jason Takac with Huntingdon Fiberglass Products. Mr. Takac, you have five minutes.

MR. TAKAC: Thank you. Members of the Section 301 Committee, my name is Jason Takac, President of Huntingdon Fiberglass Products.

Huntingdon is a U.S. company that has been making glass reinforcements for over 50 years to become a leader in the manufacturing of continuous glass reinforcements for the global composites industry.

Huntingdon is proud to manufacture its products in the great Commonwealth of Pennsylvania, where it employs over 70 people. Among the most important raw materials used in Huntingdon's manufacturing process are glass balls that are over five millimeters in diameter, sometimes referred to as glass marbles.

The proposed Section 301 tariff covers these marbles under HTSUS 7002.10.200. There is only one supplier in the United States that produces glass marbles with the chemical composition that Huntingdon requires. Unfortunately, that company, AGY Holding Corporation, utilizes most of its glass marbles internally and, thus, sells only a limited volume to Huntingdon.

As a result, Huntingdon must purchase 7 million pounds of glass marbles per year from elsewhere and China is the only country where glass marbles are manufactured with the chemical composition required by Huntingdon.

Huntingdon makes every effort to buy from domestic suppliers whenever possible. For this reason, we have tried repeatedly to convince U.S. suppliers to invest in glass-marble manufacturing.

Unfortunately, no U.S. suppliers have shown interest in manufacturing these materials for us as doing so would require a significant allocation of time and expense.

As a result of our dependence on Chinese supply, the financial consequences of the proposed tariffs would be grave for Huntingdon. We purchase roughly 16 million pounds of glass marbles each year, 9 million pounds domestically and 7 million pounds from Chinese suppliers.

Our total annual expense in 2018 for Chinese glass marbles is forecast to be approximately $1.5 million.

Therefore, a 25 percent tariff as

proposed by the administration would increase our costs by approximately $375,000 per year.

This is a very large sum for such a small company as ours. Because of the competitive nature of our business and our customer contracts, Huntingdon cannot easily pass on this substantial cost increase.

As a result, the financial burden of the tariff will be threefold. It will jeopardize U.S. jobs by threatening our ability to maintain our current level of U.S. employment.

Number two, prevent capital investments by making it extremely difficult to make capital investments in our physical plant and to expand our U.S. workforce.

Thirdly, it will injure competition. Owens Corning, the only North American competitor for Huntingdon products, uses a different manufacturing process and does not require marbles for its production. And so we will be disproportionately affected in our market by the tariffs.

If tariffs force us to retreat from the field, our competitor would be the only supplier for the materials that we make at Huntingdon to the detriment of U.S. consumers.

In fact, we were once part of Owens Corning and were required to be divested by Owens Corning to maintain competition for our products. The proposed tariffs would significantly hinder our ability to offer that competition.

Because there are no domestic suppliers of glass marbles that can meet the U.S. demand, a tariff on Chinese-origin glass marbles will provide no benefit or advantage to U.S. businesses.

To the contrary, it would negatively impact U.S. companies like Huntingdon. The glass marbles Huntingdon imports are a low-tech product with no strategic importance for China.

U.S. manufacturers have no interest in producing this product. Therefore, U.S. manufacturers will continue to obtain this raw material from China, and the financial burden of the tariff will be borne by U.S. manufacturers, not the Chinese producers.

For these reasons, Huntingdon strongly urges the Committee to remove HTSUS 7002.10.200 from the list of products subject to Section 301 duties.

I look forward to any questions the Committee may have regarding the practical input of the proposed tariffs on our company and our industry. Thank you for this opportunity to participate in the hearing.

MR. BISHOP: Thank you, Mr. Takac. Our next witness is David Rumbarger with the Community Development Foundation.

Mr. Rumbarger, you have five minutes.

MR. RUMBARGER: Good afternoon, my name is David Rumbarger. I'm President and the CEO of the Community Development Foundation in Tupelo, Lee County, Mississippi.

We're located in the Northeastern part of the state and as of the 1900 census, we were the poorest county in the state of Mississippi, but through our organization's efforts over the past 100 years, we've worked hard to recruit and retain employment for our region -- especially in the last 50 years where we've developed and fought to maintain our place in the upholstered furniture sector. We even acquired foreign trade-zone status as a part of that effort.

The annex to your notice of July 17th includes a number of input items that are used in the production of American-made finished products such as upholstered furniture, electric recliners, lift chairs, and hospital beds.

On behalf of the furniture manufacturing industry in Northeast Mississippi which includes Southern Motion, United Furniture, American Furniture, HomeStretch, Ashley, La-Z-Boy, and many others, CDF respectfully requests the removal of these inputs from the list of products to be covered by the final action.

The upholstered furniture and manufacturing industry in Northeast Mississippi employs more than 14,000 people with total annual wages of over $500 million. It's the highest concentration of upholstered furniture production in America.

In some Northeast Mississippi counties, one out of every two people employed are employed in the furniture industry. From 2011 to the present, the annual output of American-made upholstered furniture nearly doubled $8 billion to $17 billion. During this time, imports of finished upholstered furniture have risen imports now from $1 billion to $2 billion per year. The doubling of these imports of finished upholstered furniture -- which carries a zero-duty rate -- has certainly been felt by American manufacturers.

The Section 301 tariffs on items used as input for furniture production will result in significant job losses in Northeast Mississippi. This will be brought about by readily identifiable countermeasures that will be employed to avoid those tariffs.

The industry does not object to the inclusion of finished upholstered furniture in the final Section 301; however, it urges the removal of upholstered fabrics and other inputs used in the production of American-made upholstered furniture.

Vietnam and other Southeastern Asian countries have greatly increased their capacity to produce finished exported furniture in the United States. For example, Man Wah Holdings of China has recently expanded its footprint in Vietnam to over $3 million square feet that produce, sew, manufacture, then export 36,000 containers of finished furniture, upholstered furniture, to the United States annually.

These finished products will enter the U.S. market with zero tariffs. The proposed 301 tariffs on upholstered fabric and pre-fabricated upholstered cover sets or kits will place American-made upholstered furniture manufacturers at a significant cost disadvantage versus many producers of finished goods and pre-fabricated upholstered cover sets from Southeast Asia as well as Central America.

This cost disadvantage will be catastrophic to the lives of 14,000 men and women working in Northeast Mississippi's furniture sector.

In addition to Man Wah's shift in manufacturing production of finished goods to Vietnam from China, we want to make you aware there's another import shift that will most certainly take place should Section 301 tariffs be assessed upon our furniture-upholstery fabric kits and sets.

Instead of certain upholstery fabrics being manufactured in China then shipped to the U.S. where they are cut and sewed by Americans prior to installation on American-made furniture frames, those same fabrics will continue to be manufactured in China, sent to third countries such as Vietnam, Mexico, and Nicaragua, then transformed into these pre-fabricated upholstery covering sets or kits, then shipped to the United States duty-free.

This will undo the work that CDF has done over the past decade to repatriate outsourced cut-and-sew jobs to Northeast Mississippi and will undo our work with little or no cost to Chinese upholstered fabric mills.

I want you to certified examine not only my extensive comments, but those submitted by the members of this region's furniture industry.

These comments describe in detail how proposed Section 301 tariffs on fabrics and other inputs for the production of upholstered furniture will be side-stepped at the expense of jobs which are at present held by our fellow citizens of Northeast Mississippi.

For the moment, I am happy to provide you with a few supporting documents including a one-page chart of the harmonized tariff schedule classifications of fabrics and inputs used in upholstered production in Northeast Mississippi, items we request that you remove from the annex's final action.

In conclusion, we support the tariffs that help level the playing field for American manufactured furniture but applying it to the inputs used in American manufacturing, these tariffs cripple American companies, manufacturing furniture for domestic and international markets. I'll be happy to answer questions.

Thank you.

MR. BISHOP: Thank you, Mr. Rumbarger. Our next witness is Joseph Spraragen with Align Hospitality Furnishings. Mr. Spraragen, you have five minutes.

MR. SPRARAGEN: I'd like to thank the Committee for the opportunity to provide testimony today. I am Joseph Spraragen with Grunfeld Desiderio appearing on behalf of Align Hospitality Furnishings.

Since 2004, Align has operated from its Headquarters in California, currently based in Signal Hill. Align is a small U.S.-owned and operated company with just eight employees in the Signal Hill Office.

The company's core business is supplying hotels throughout the United States with case goods, seating, lighting, and mirrors. Its customers include Marriott, Hilton, IHG, Starwood, as well as many small independently-owned boutique hotels. The furnishings are used in new hotels as well as for hotel renovations.

The company's success depends upon two factors. First, Align's designers and product managers working closely with each hotel customer to identify and develop customized furnishings to meet each hotel's goals for style and functionality. This process entails reviewing technical drawings, customizing materials, and working creatively to actualize the hotel's vision.

Second, and just as critical, Align supplies its hotel customers with the made-to-order furnishings on time and at a competitive price. Align is able to do this because it has spent years identifying reliable sourcing for the furnishings.

While Align does source some components in the United States, all of its furnishings are produced by unrelated manufacturers in China.

The threat posed to this small U.S. business by the proposed 25 percent additional tariff is disproportionate. This industry is highly competitive, and Align would not be able to pass this additional cost on to its customers.

Its customers will simply shift their orders to foreign-based suppliers, principally based in Vietnam and Indonesia, and will cut out the role now performed by U.S.-based designers and suppliers such as Align.

This will result in a windfall to suppliers based in Vietnam and Indonesia, but it would be devastating to Align. The company's very viability will be at grave risk, along with the jobs of its long-tenured employees.

Align cannot shift its orders to U.S.-based manufacturers, and the company is unaware of any manufacturer in the hotel furnishing space that does not perform some fabrication overseas. Likewise, Align cannot shift its sourcing to other foreign producers outside of China and remain competitive because its business is based upon the many years that it has invested in identifying and vetting its China sourcing.

Attempting to shift to alternative sources would erase this investment and remove a critical pillar of the company's success. This would be particularly unfair to Align, which could not have foreseen this proposed sudden spike to its cost of doing business.

The furnishings sold by Align are manufactured with no U.S. IP or technology whatsoever. 100 percent of the design work is performed in the United States.

Therefore, imposing additional duties will have no effect on altering the unfair trade practices identified in the Section 301 investigation report.

The proposed duties on furnishings will not impact China's practices but they will lead to a loss of U.S. design jobs.

Such tariffs may also have a chilling effect on new hotel construction and renovation projects in the United States, which would result in a further loss of U.S. jobs.

For this reason, we respectfully request that the tariff Subheadings that are outlined in our written comment be removed from proposed List 3.

The bulk of these provisions are from Headings 9401, 9403, and 9405 as well as certain products from Headings 6802, 6810, and 7009. Thank you.

MR. BISHOP: Thank you, Mr. Spraragen. Our next witness and final witness on this panel is Douglas Townsend with Hooker Furniture Corporation.

Mr. Townsend, you have five minutes.

MR. TOWNSEND: Good afternoon, my name is Doug Townsend, and I'm the Co-President of Home Meridian International, an operating unit of Hooker Furniture Corporation.

I have been involved in the furniture industry for 24 years and I am here to impress upon you the economic threat that these tariffs will post to both our domestic manufacturing and our import operations. And we are not alone, this threat faces the entire U.S. furniture industry.

Hooker furniture has a long why of furniture production in the United States. Founded in 1924, Hooker furniture is a third-generation, family-run business that went public in 1999, dedicated to the pursuit of making stylish, long-lasting, high-quality furniture.

We have grown to become one of the top five furniture wholesalers, employing nearly 1,100 workers here in the U.S. Hooker has weathered some of the most arduous time periods in our nation's history.

We have survived, overcome, adapted, and thrived for nearly 95 years, yet, I do not exaggerate when I say the new Section 301 tariffs on products from China are the single greatest threat to Hooker's business.

I am here today to beg the USTR to remove the HTS Codes we provided in our August 13th summary of testimony that cover furniture raw material inputs and parts as well as finished furniture pieces from the proposed list of tariffable products.

For certain parts and finished products, China is the only country that can provide Hooker with the appropriate quality and volume.

Hooker employees have a blended global supply strategy, which means we source some parts and materials from China to supply our manufacturing facilities in Virginia and North Carolina, and we also import finished furniture products.

Roughly two-thirds to three-quarters of the furniture industry operates on a blended strategy. This strategy is what allows Hooker to provide high-quality furniture at competitive prices, while at the same time maintaining hundreds of high-paying manufacturing jobs in the United States.

These tariffs will raise the price of inputs through our manufacturing and our finished products, dramatically increasing costs for our company and ultimately for our consumers.

The increased costs will force us to

eliminate certain product lines of furniture and immediately raise prices. A 25 percent tariff will raise the retail prices on some of our products hundreds of dollars.

You need to know that furniture is a big ticket, highly deferrable consumer durable. When consumers are faced with a tightening of their discretionary spending budget, furniture goes to the bottom of the shopping list.

Our industry learned this painful truth again recently during the Great Recession when furniture sales dropped a shocking 33 percent industry-wide over two years. Consumers are not the only ones who will suffer.

A ripple effect from the tariff will be felt across our company, as every job will be threatened. Out of the almost 1100 employees at Hooker, over 650 are in manufacturing. As a result of lower sales, we will be forced to lay off a substantial number of employees. It is not just production workers who are threatened.

Jobs and design, distribution, sales,

supply chain, engineering, IT, and finance are all at risk, as we become forced to downsize with lower sales. These are good high-paying jobs with Genitus Healthcare and 401K programs with salaries ranging from between $40,000 and $100,000 per year.

There is the common misconception that the tariffs will lead to an increase in domestic manufacturing and save or bring back manufacturing jobs from overseas.

I can guarantee that the opposite will occur. There is already a well-documented shortage of skilled labor in our industry. Individuals with the necessary skillsets are rare to find, and training new workers or enticing young Americans to learn the trade is even more difficult.

If we are forced to downsize and eliminate these jobs, it is highly unlikely we'll be able to find qualified replacements in the future when business comes back.

While the administration believes that these tariffs help promote domestic jobs and help

U.S. manufacturing, the reality is the tariffs would take away the blue-collar jobs this administration promises to protect and promote.

Finally, on sourcing from a third country outside of China, Vietnam and other third countries do not possess enough adequate capacity, investment, infrastructure, or skilled workforce to produce parts or furniture to match the demand and the quality of all the types of imports that we import currently from China.

In the very long time it would take to transfer all of our China imports to third countries, we will have incurred heavy losses, and that would force us to lay off workers.

While we support the administration's goal of combating predatory Chinese business practices, intellectual property and the other intended targets of the Section 301 duties are not an issue in the Chinese furniture industry.

There is not an economic or intellectual property-related rationale for including furniture and furniture parts and inputs in the Section 301 list.

We are a global company managing a global supply chain in a competitive industry, attempting to diversify and grow. But these tariffs would only serve to stunt our evolution.

Our American company, with 1100 high-paying jobs, humbly asks the USTR to remove HTS Codes for furniture and furniture inputs from List 3.

We ask for the sake of our employees, we ask for the sake of the ten cities and communities across the U.S. that Hooker is an integral part of.

We ask for the sake of our shareholders and our retirees, both of whom we have fiduciary obligations to.

I cannot emphasize enough that the current 301 tariffs will severely hurt our company and our industry.

Thank you.

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

CHAIR BUSIS: Ms. Bonner, if you could proceed?

MS. BONNER: Mr. Alfonso, thank you for your testimony. I do have two questions.

First, you testified that passing the cost arising from the additional tariffs along to the company's customers would not be feasible because many of your customers would look elsewhere to satisfy their supply needs.

Can you elaborate on what other products you believe the customers would turn to? And I do have a second question after that.

MR. ALFONSO: I'm not certain, my client's products go into a lot of different end user pieces of equipment and items. So, I'm not really certain if I can --

MS. BONNER: I understand, I know your representing your company. Maybe in the post-Hearing submission you could provide that information.

I did have maybe a question, especially

with your expertise, that you might have more information on for the Committee.

Are there ever or generally contractual provisions that would allow for contracts to have input substitution to allow for supply chain resiliency?

MR. ALFONSO: That's a very good question.

I've been drafting U.S. international contracts for about 20 years and the answer is, yes, there can be but there often times isn't for various reasons, not the least of which is one of the parties doesn't want it in there and the other party doesn't care to fight over it.

On occasion, it can be the parties didn't think about it or conceive the situation. So, if you're asking in particular with my clients contracts, I follow that up as well.

My understanding is that these are long-term contracts that do not contemplate -- there's no relief or waiver contemplated or provided for, for this kind of tariff imposition.

That's my understanding but I'll follow up on that.

MS. BONNER: What about any other disruption? It was just a question I was curious about, thank you.

MR. ALFONSO: And I apologize, your first question I want to get some clarity so we can include that in the summary, please.

MS. BONNER: I'll write it out for you afterwards if it helps.

MR. ALFONSO: Thank you.

MS. HOLMAN: Good afternoon, my question is for Mr. Farrelly from Crosman. Thank you very much for your testimony and for coming today.

MR. FARRELLY: Thank you for having me.

MS. HOLMAN: You testified that products under HTS Code 90138090 are not manufactured in the United States. Are they manufactured in places other than China?

MR. FARRELLY: They are. They are

manufactured in other places than China. These products, particularly at the low end, so the low- to mid-tier consumer grade modules are not made in the United States.

I'm aware of some of them made in Germany and Japan but I believe they go to China for finishing.

MS. HOLMAN: Is there any possibility that you could diversify your supply chain?

MR. FARRELLY: Not without adding substantial costs. Again, there's a logistics element associated with bringing it back to China and then bringing it to us.

Also, it starts in a higher cost, labor cost environment, so it would add cost either way.

MS. HOLMAN: Do you have any U.S. competitors that would be similarly disadvantaged?

MR. FARRELLY: I believe so. I'm not 100 percent familiar with their supply chain, but I believe that they would be in the same position we are.

MS. HOLMAN: Thank you very much.

MS. TRAVIS: Hi, I'm Karen Travis from the Department of Labor.

My question is for Ms. Jacobs. Ms. Jacobs, you testified that machine-made rugs as well as hand-tufted and hand-tufted with power tools are key offerings for your members.

I'm wondering could those rugs be produced domestically, for example, the machine-made rugs or imported from other third countries?

MR. JACOBS: Theoretically, wherever there are weavers, you could produce a rug.

The problem is that there's training involved, and the same problem you've heard from Hooker industries -- that finding workers who want to do this and want to learn those skills in the United States is extremely limited.

MS. TRAVIS: Thank you.

CHAIR BUSIS: These questions are for Mr. Khubani of Telebrands.

Could you let us know, let the community know, what kind of facilities you use in China to produce your products? Were they contract manufacturers or wholly-owned manufacturers?

MR. KHUBANI: Contract manufacturers.

CHAIR BUSIS: And do you have a concern that -- you mentioned that within a few weeks of producing a product and starting to sell it, that you'll see knock-offs in the market.

Are you concerned that the manufacturing in China has contributed to the speed with which knock-offs occur?

MR. KHUBANI: We routinely purchase the counterfeits from Amazon on a daily basis almost, and we compare them to our product and they are significantly different enough from our products that we're not concerned that they're contributing.

And also, we have our own employees who regularly visit our factories in China, and they have not seen any evidence, and we've been doing business with these companies in China for decades.

So, there's really no concern and there is a significant difference in the quality being manufactured on counterfeit products. They're shoddy, many times they don't comply with the U.S. Government regulations.

CHAIR BUSIS: And if tariffs were imposed on some of the tariff lines that are of concern to you, would it be possible to use contract manufacturers in the United States or other countries?

MR. KHUBANI: For most of our products, I think it would be very difficult to manufacture those products in the United States because of the increased cost in labor.

Quite frankly, the 25 percent tariff increase, it would be cheaper to continue manufacturing most products in China. We have not yet looked to other countries for sourcing.

CHAIR BUSIS: Thank you very much.

MS. PSILLOS: My question is for Mr. Takac. The glass marbles that you produce, do they serve as inputs to another good?

So your customers, do they manufacture end products with these glass marbles?

MR. TAKAC: Yes, we're in the middle of the supply chain, so we buy the glass marbles and we actually re-melt them, and then we make a glass reinforcement that we sell to pultrusion companies and molders for markets like transportation, heavy truck building and infrastructure.

So the unique position that we're in is, to my knowledge, we are the only company that imports these glass balls on the scale that they are.

So, I think I referenced in my testimony 7 million pounds from China. The next highest importer of this product to my knowledge is less than 100,000 pounds. The unique position we find ourselves in is the only other company that makes a product like ours to compete in the global market because we do export all around the world is Owens Corning.

They have a different process so they don't use this input and their manufacturing is based in Canada. So we are literally the only manufacturer in the U.S. of this particular product. So we would singularly be disadvantaged.

MS. PSILLOS: Okay, so when you pass the cost on, or when you sell these products to your customers, whether they're used in various applications, how much of the cost of their final product would be the fiberglass that they're buying from you?

And is that something they can absorb?

MR. TAKAC: It's significant to them as is the glass input is significant to us. Because it's really only a couple components.

There's the glass itself, there are the chemicals and then there's the packaging. So those are the three raw material components and the glass and the chemicals make up just about the entire product.

MS. PSILLOS: Okay, and then the product that's produced by your competitor, are you guys fairly cost-competitive? What is the difference between cost?

I know you said there's a different

manufacturing process.

MR. TAKAC: The cost is very competitive so their total landed cost into the U.S. is probably a little bit better than ours but the market prices are competitive.

So you could imagine if we're hit with the 25 percent, they're not hit with that and then we become disadvantaged.

MS. PSILLOS: Thank you.

MR. SULEWSKI: This question is for Mr. Rumbarger. Can you provide additional information as to the sourcing of your materials?

What percentage of your upholstery fabrics and other inputs are imported from China, and other options for sourcing?

MR. RUMBARGER: I can, I'll do that in a follow-up written testimony.

I can tell you just from experience, 80 percent of the raw goods are from China, and Gum Tree Fabrics in our market has presented testimony also during this period of time, and I'll reference their numbers also. But mostly, it's

China, very few.

Now, there is a shift going on from China to Vietnam but, again, as one of my fellow panelists says, the capacity and ability for Vietnam to take that shift over the next, say, 6 to 12 months is going to be incompatible.

MS. KNISLEY: Mr. Spraragen, you've testified that it would be difficult to shift to alternative sources outside of China. Although the process of identifying these new suppliers can be challenging, do suppliers of these products also exist outside of China?

MR. SPRARAGEN: Yes, they do, particularly with respect to Indonesia and Vietnam.

Align, as I mentioned, is a very small company, and they just don't have the bandwidth to do that sort of exploration to identify alternative sourcing, which, essentially, devoted their entire company's existence to identifying these sources in China.

Bear in mind, in the hospitality space, the furnishings are highly customized and have to be turned around in a very quick made-to-order process and it's not simply a question of a big-box manufacturing operations that could be easily shifted from one place to another.

Developing these sources has taken years and the small companies such as Align just wouldn't be able to do that in other countries.

MS. KNISLEY: Thank you.

MS. TRAVIS:: My question is for Mr. Townsend. Your statement addresses questions of consumer impacts and alternative sourcing.

Based on your experience in the industry, can you tell us why China is currently the only viable source of supply?

MR. TOWNSEND: Yes, sure. So, we're one of the larger furniture-sourcing companies in the industry so we sourced out of China, out of Vietnam, out of Indonesia, Malaysia, India, and Cambodia.

And we have people in all these different countries and so we know who the furniture producers are in all these countries, we know them well, we know what their capacities are, and we know who has extra capacity.

Currently, China is 55 percent of the total furniture imports. For all furniture that's imported, 55 percent comes from China, and there's no way that the rest of the 45 percent of the imports that come from other countries could more than double to take on the business that's coming out of China.

Because we're such a big company or such a large sourcing company, we get to choose where we source our goods depending on what the price-point is, what the quality level is, the requirements for the finish, the requirements for the extra materials, does it have mixed media, metal, stone, et cetera.

And the reason that we still do a large amount of business in China is because China has the expertise, it has the capacity, it has the access to the raw materials there that are not in those other countries.

And so if that business was to move,

it would take multiple years to move the amount of business that's coming out of China, and then some of it just couldn't move and would have to go away because factories in Vietnam, Cambodia, et cetera, while they have much lower costs than China, they don't have the capabilities, they don't have the technologies, they don't have the equipment, they don't have the management power, et cetera, to do the things that we're doing in China.

MS. TRAVIS: Thank you.

MS. BONNER: Mr. Khubani, in follow-up to your question, you discussed e-commerce counterfeits and in specific, patented goods -- infringing goods coming from China.

Do you have any thoughts or recommendations for the Committee on how to address e-commerce counterfeits specifically involving patent-infringing goods from China?

MR. KHUBANI: I think the key issue is that Chinese entities have access to U.S. consumers, and U.S. intellectual property rights and U.S. Government regulations are not enforceable in China.

So, these entities do not have to abide by any U.S. laws, which gives them a huge advantage.

So, I would say unless these Chinese entities would abide by U.S. intellectual property laws and U.S. Government regulations, they shouldn't be allowed to sell or access U.S. consumers.

U.S. consumers are harmed because they're unwittingly buying counterfeits. They think they're the real thing because they're buying from Amazon, a reliable company, and they assume that Amazon is not going to ship them a counterfeit.

But Amazon currently sells billions of dollars in counterfeits. They're probably the largest counterfeiter in the world. But U.S. consumers -- nobody realizes what's going on.

So I think either Chinese entities need to be accountable but it's probably easier to make

Amazon accountable to police the counterfeits, which they're not currently doing because they have no liability under current U.S. laws.

MS. BONNER: Thank you.

CHAIR BUSIS: I think we're ready for the next panel, please. Thank you.

MS. BELLAMY: This panel is dismissed. Can Panel 37 please come forward?

CHAIR BUSIS: Ms. Bellamy, if you could call the next panel, please?

MS. BELLAMY: Our first witness on this panel is Warren Auwae from Central California Truck and Trailer Sales, LLC. Mr. Auwae, you have five minutes.

Microphone, please? Press the button.

MR. AUWAE: Good afternoon, my name is Warren Auwae, I'm the President and General Manager of Central California Truck and Trailer Sales, LLC.

We are the largest commercial trailer dealer in California by geography. We have six locations that stand from Sacramento in the north to San Diego in the south.

I'm here today to represent our 30 employees as well as 10 suppliers and vendors that employ over 300-plus U.S. workers.

I'm here to urge the administration to remove trailer and trailer parts classified under HTSUS 8716-39-00, 8716-90-50, 8708-70-45, and 8708-30-50 from the list of proposed products subject to a 25 percent tariff.

If these tariffs are put into place, it will result in an immediate 15 to 20 percent drop in sales. In addition, a 10 to 15 percent of our workforce will be impacted with layoffs or decreased hours.

Our trailers are built in America at three plants located throughout the United States. We use some parts, component sourced from China, to do this. All of the products that are sourced from China cannot be sourced locally.

Thus, these tariffs would cause irrevocable damage to our supply chain. The transportation industry is the tip of the sphere of commerce in the United States.

Any change to the efficiency or productivity of this industry will have devastating effects on our economy. We are currently in a transportation equipment shortage and these tariffs would only serve to exacerbate this problem.

In closing, I urge the administration to remove these import codes from the list of potential tariffs.

We understand the reasoning behind the tariffs, however, we know that tariffs on the transportation industry will only cause higher prices for consumers as well as impede GDP growth. Thank you.

MS. BELLAMY: Thank you, our next witness is Steven Drew of Small Tube Products. Mr. Drew, you have five minutes.

MR. DREW: Thank you for your time. I appreciate you giving me the opportunity to speak with you.

My name is Steven Drew, I'm President and CEO of ST Products, LLC, doing business as Small

Tube Products in Duncansville, Pennsylvania.

I'm also CEO of our fully-owned subsidiary National Copper and Smelting in Huntsville, Alabama and Ardmore, Tennessee. Our manufacturing facilities currently employ approximately 340 individuals across three locations.

I appreciate your time and the opportunity to state some facts and express my concerns related to the actions proposed in USTR-2018-0026, specifically addressing matters regarding HTSUS Subheadings 7411.21.10, copper-zinc-based alloys, brass tubes and pipes, seamless, and Subheading 7411.22.00, copper-nickel-based alloys, cupronickel tubing, seamless, and also nickel silver tubes.

My company currently purchases base tubing that fits into the above-mentioned Subheadings from Chinese suppliers. We purchase from China because there are no domestic U.S. manufacturers of seamless brass and seamless copper-nickel tubing.

We then redraw or resize the base material into the specific size, shape, and temper our customers request. In these alloys, we currently compete primarily with material coming into the United States from Mexico and other Asian and European nations.

My concern is that we have no producers of this base tubing remaining in the United States, and this proposed action will now make it more difficult for my company and other companies as re-drawers of tubing of copper-based alloys to compete with other foreign nation competitors.

Handicapping U.S. copper alloy tubing redraw companies with higher purchase prices and commensurate higher selling prices by imposing the proposed tariff opens the doors of the U.S. market to other foreign nation producers.

The proposed tariffs are based upon total invoice price including metal value. In this case, the metal value based upon Comex or LME copper price and LME-based pricing for constituent alloying elements, primarily zinc and nickel, is overwhelmingly the largest percentage of the purchase price.

With 10 percent import tariffs, we would see tariff values on a per-pound basis that are at least 50 percent, and in some cases up to 77 percent of the fabrication value we are paying for the base tubing.

And at 25 percent import tariffs, the percentages jump up to 99 percent to 191 percent of the fabrication prices. The metal value is based upon commodity markets and fluctuates up and down.

All producers of these copper-based alloys worldwide are subject to the same commodity values. The fabrication price is where we need to focus our attention.

The huge percentage increases on the fabrication price as a result of the proposed tariffs will create a significant competitive challenge for small-tube products and other domestic redrawers of these copper-based alloys.

For the fully year of 2017, we purchased just over 2.4 million pounds of copper alloy base tubing identified in these Subheadings from China.

If tariffs are levied at a 10 percent level, the additional expense to STP would be approximately $983,000. If the tariff is implemented at 25 percent, the additional cost would be approximately almost $2.5 million.

This additional cost will inflict a great deal of financial stress on our company and impact the employment levels at our facilities.

I can understand and fully support tariffs in a situation where we are trying to protect our U.S. manufacturing base, for example, where the U.S. steel industry has been hurt by foreign competition or where the domestic copper tubing market was being impacted by Chinese imports.

But in this situation, there are no U.S. manufacturers of seamless, brass, and copper nickel tubing left, so there is no industry to protect. All of the domestic suppliers of this type of product have closed their doors.

In addition to my comments above, which are not business-confidential and may be made public, I have submitted copies of three commercial invoices from three different Chinese suppliers. The documents were entered with my comments via the www.regulations.gov website.

CHAIR BUSIS: Thank you, Mr. Drew, we'll be sure to look at those confidential documents.

MR. DREW: In conclusion, I feel that imposing 10 percent or 25 percent tariffs on the items outlined above would cause harm to the domestic U.S. brass and copper alloy redraw industry.

For the reasons stated above, I respectfully request that HTSUS Subheadings 7411.21.10, copper-zinc-based alloy brass tubes, pipes, seamless, and 7411.22.00 copper nickel-based alloys, cupronickel or copper nickel zinc alloy is nickel silver tubes and pipes be granted exemptions.

Thank you for your time and

consideration, and I'll be glad to answer any questions you might have.

MS. BELLAMY: Thank you. Our next witness is Jeffrey Dudenhefer of North American Chassis Pool Cooperative.

You have five minutes.

MR. DUDENHEFER: Thank you, good afternoon. My name is Jeffrey Dudenhefer and I'm Executive Vice President of North American Chassis Pool Cooperative.

North Chassis Pool Cooperative is a company formed by a group of 12 U.S. motor-carriers with pooling authority from the United States Surface Transportation Board.

With its authority, North American Chassis Pool Co-Op has acquired at least 20,000 intermodal chassis from manufacturers, ocean carriers, and Chassis leasing companies over the last five years, contributing these chassis into neutral U.S. chassis pools.

By pooling resources, North American Chassis Pool Co-Op achieves important cost savings towards not only the acquisition and leasing of chassis but also the cost of chassis modernization in providing higher-quality premium chassis to the trucking community.

I'm here to urge the administration to remove chassis classified on the harmonized tariff schedule 8716.39.00 from the list of proposed products subject to the 25 percent tariff.

Intermodal chassis -- which are used in the conveyance of international containers which are already exempt from the tariff -- are integral in the delivery of cargo to distribution centers, warehouses, and retail stores.

Chassis are also instrumental in keeping our ports and railroads fluid during peak shipping seasons, avoiding gridlock and extended delays.

Even more importantly, chassis are used for effecting delivery of cargo in containers to U.S. customs examination stations to facilitate commercial enforcement, statistical validation, anti-terrorism, contraband enforcement team inspections, along with other participating Government Agency inspections -- examples being Food and Drug Administration, U.S. Department of Agriculture, Consumer Product Safety Commission, and many other agencies.

While at these customs exam facilities, the containers remain on chassis until the cargo is inspected and cleared for furtherance. So, adequate chassis supply is necessary for truckers to keep the flow moving and meeting U.S. customs time constraints.

North American Chassis Pool Cooperative relies on imported chassis from China because there are insufficient U.S. producers and third-country suppliers to meet market demand.

During the last few years, as container shipping growth continues on an upward trajectory, ocean container vessels are getting larger, necessitating the need for additional chassis to handle more concentrated deliveries.

North American Chassis Pool Co-op has added several thousand chassis to its fleet to meet these demands. With the limited capacity to produce domestically, we've had to go to where production capability is, not only for quantity but for quality -- the same quality as domestic producers.

When ordering 1000 or 2000 chassis at a time, domestic production can only deliver over an extended period of 26 to 52 weeks, while the Chinese capacity was able to deliver over four to eight weeks.

The impact of the proposed tariffs on North American Chassis Pool Cooperative would be passed onto consumers, causing severe economic harm.

North American Chassis Pool Co-op provides an at-cost pool to its members and to its customers. The at-cost model would simply add the tariff cost to the existing pricing and pass along to the trucking community direct customers and users of the chassis.

As each modal unit passes on the cost, the only harm being done is raising the cost to the U.S. consumer.

Finally, the proposed tariffs would not achieve the administration's policy objectives. Chassis are not a high-technology product or an industry that USTR identified as being of concern in this investigation.

North American Chassis Pool Cooperative believes in free and fair trade; however, the imposition of these tariffs will not achieve those goals.

Thus, for the foregoing reasons, North American Chassis Pool Cooperative respectfully requests that USTR remove chassis under the harmonized tariff schedule 8716.39.00 from the list of products subject to the proposed 25 percent tariff.

I'll be glad to answer any of your questions. Thank you.

MS. BELLAMY: Thank you. Our next witness is Terrence Hartford of Allegheny Technologies, Inc.

Mr. Hartford, you have five minutes.

MR. HARTFORD: Thank you. Good afternoon. I'm Terry Hartford. I'm Vice President of ATI Defense at Allegheny Technologies, or ATI.

ATI is headquartered in Pittsburgh, Pennsylvania and operates manufacturing facilities throughout the United States. ATI is a producer of technically advanced specialty materials and complex components, with annual revenues approaching $4 billion. Our products support diverse markets and industries, such as aerospace and defense, oil and gas, electrical energy, medical, and other industrial markets.

The focus of my testimony today, however, is ATI's manufacturing operations that produce zirconium, hafnium, and their derivative alloys. Zirconium and hafnium are metals that are critical to many defense applications. Both are highly resistant to corrosion and high temperatures and are typically used in applications involving aggressive environments.

Our company was the first

industrialized manufacturer of zirconium. In the late 1950s, ATI zirconium products were used for the nation's first full-scale commercial nuclear power plant built in Shippingport, Pennsylvania. ATI is not only a pioneer in zirconium but also continues to be a leader in zirconium metallurgy.

ATI produces zirconium, hafnium, and their alloys at its facilities in Millersburg, Oregon and Huntsville, Alabama. Zirconium products are used in a variety of applications, including the cladding of fuel rods for nuclear reactors operated by both the Navy and civilian authorities, military and commercial aircraft engines, and many other industrial and electronic applications. Hafnium products are used for national defense applications.

ATI's customers for these products include the United States government, other specialty materials producers, and the companies that comprise the global aerospace and defense sector.

In order to produce zirconium, hafnium,

and their alloys, ATI has long sourced key inputs from overseas suppliers, primarily China. ATI would prefer to source these materials domestically in order to strengthen and simplify the security of our supply chain. These inputs, however, are not manufactured in the United States in commercial quantities, if at all. Environmental factors in particular make it difficult to produce these materials in the United States.

The two most important inputs consumed by ATI in manufacturing zirconium, hafnium and their alloys are included in Annex C. Those inputs are zirconium oxide powder -- what we call fused zircon, which is classified under HTS Subheading 8109.20.00 -- and zirconium oxychloride, also known as ZOC, which is classified under HTS Subheading 2827.49.50.

ATI requests that the Section 301 Committee removed the tariff classifications affecting these two input materials from Annex C.

First, these inputs are not produced in commercial quantities in the United States.

We are aware of one smaller U.S. source of zirconium oxide powder from whom we actually purchase some material, although cost and availability have been an issue.

We purchase all of our ZOC from China. ZOC is the primary input material. And therefore, there are no large-scale producers of ZOC in the world other than in China. ATI uses both ZOC and zirconium oxide powder as input materials, but the optimum performance is obtained when ZOC is the major input.

Second, the imposition of an additional duty of 10 percent to 25 percent will significantly increase ATI's costs to source these materials. Imported zirconium powder is already subject to a normal duty of 5.5 percent and ZOC, 4.2 percent.

Zirconium powder and ZOC account for a significant portion of the total cost of manufacturing zirconium and hafnium. Imposing an additional duty on these inputs will result in the U.S. government and ATI's other domestic customers paying significantly higher prices for zirconium and hafnium.

Third, imposing an additional duty on these products will hurt ATI's competitiveness in selling zirconium, hafnium, and their alloys to our overseas customers. As we speak, we have already have customer orders at risk with the expectation that these tariffs and retaliatory Chinese tariffs will go into effect. These additional duties will only enhance the competitiveness of our global competitors who will not have to absorb these same cost increases.

Indeed, a decision to impose the additional duties will provide a cost advantage for our international producers when we compete in global markets, further disadvantaging our company and other U.S. manufacturers who consume these products.

ATI generates significant annual revenues from the sale of zirconium and hafnium products. A 10 percent to 25 percent tariff on imports from China of the two most important inputs in the manufacture of zirconium and hafnium products would compromise ATI's ability to supply the critical defense applications outlined in this testimony.

ATI respectfully requests that the Section 301 Committee remove the Harmonized Tariff Schedule classifications for zirconium oxide powder and ZOC from Annex C.

Thank you, and I'd be pleased to answer your questions.

MS. BELLAMY: Thank you. Our next witness is Julia Lord of Fedmet Resources Corporation.

Ms. Lord, you have five minutes.

MS. LORD: Thank you. My name is Julia Lord, and I'm an owner and corporate officer of Fedmet Resources Corporation. On behalf of Fedmet and our employees, I would like to thank you for the opportunity to appear today.

Fedmet is a medium-sized family-owned business that has been in operation for 28 years. Our products include ceramic refractories, graphite electrodes, and other raw materials which are vital components in the steel manufacturing process in the United States. Imposing these specific tariffs will cause disproportionate economic harm to U.S. interests, including small- and medium-sized businesses like ours.

First and foremost, we do not believe that putting a tariff on the industrial products that we import will be an effective way to advance USTR's Section 301 investigation to eliminate China's acts, policies, and practices related to technology transfer, intellectual property, and innovation.

Ceramic refractory and graphite electrode production in China has been well developed for decades. The technology innovation that goes into producing these goods does not change rapidly, like robotics or medical technology. The technology used in the production of refractories and electrodes only improves slightly year over year, but it's fundamentally the same as it has been for 100 years.

The manufacturing of these products

does not use any of the advanced imported technology that is a concern under USTR's Section 301 report nor are these products a focus in China's Made in China 2025 initiative.

Secondly, tariffs on these products will increase the cost to American steel producers and, ultimately, the American general public. The proposed tariff exceeds the typical profits on our products. We would be forced to pass the tariff costs onto our customers, the U.S. steel manufacturers. In turn, they will be forced to pass the price increase onto their customers, the steel consumers. The inflated steel price would impact every industry that utilizes American steel.

In May of this year, a 25 percent tariff on steel imports and a 10 percent tariff on aluminum imports were enacted for the purpose of helping these industries compete against the illegally subsidized product entering the U.S. The tariffs currently being proposed will undermine the steel and aluminum tariffs put in place earlier this year.

It is our belief that if the USTR

understood how tariffs on ceramic refractories, graphite electrodes, and the other raw materials used in metal production would have such a negative impact on the domestic market, they would not have included these items on the proposed list.

Multiple products on this list has limited or no domestic raw material supply. There is some mining and refinement done in Turkey, Russia, and South America, but not at the capacity required by the U.S. steel manufacturers. Any alternative source outside of China for these raw materials would add cost to the product without any benefit to the U.S. steel producers.

As a medium-sized business, we are responsible for the livelihoods of 25 U.S.-based employees and their families as well as contributing to the livelihoods of 25 contracted agents, consultants, and their families. We are currently expanding our business, but our ability to hire additional employees will depend on the extent of economic harm we will encounter if these tariffs are imposed.

In additional to the steel and aluminum industries, there are many other metal industries that are going to be negatively affected by the sudden spike in ceramic refractories. The copper, lead, and zinc industries rely on refractories just as heavily as steel and aluminum. Many other industries that rely on refractories, such as cement, lime, construction, oil refining, and paper production, will also feel the effects of these tariffs.

Additionally, utilities depend on refractories for purposes including power generation and municipal incineration. These broad and overall mistargeted tariffs will impact a diverse array of allied businesses, including but not limited to our logistics teams, trucking companies, train transports, and warehouses.

As a supplier of refractories, graphite electrodes, and other products utilized in the U.S. steel industry, we ask that the HTS codes attached to your copy of our written testimony be removed from consideration. Tariffs on these codes will have a negative impact on our family's business, our employees, our customers, our partners, and, ultimately, the U.S. consumer.

Thank you.

MS. BELLAMY: Thank you. Our next witness is Arvin Scott of Power Stop LLC.

Mr. Scott, you have five minutes.

MR. SCOTT: Good afternoon. Thank you for giving me the opportunity to provide testimony today. My name is Arvin Scott, and I'm the CEO of Power Stop LLC. Power Stop was founded in 2005 and is based in Bedford Park, Illinois.

We design, engineer, and then work with brake suppliers in China and Korea to produce brake rotors, pads, and calipers for braking systems for cars, trucks, SUVs, performance vehicles, severe-duty trucks, offering a variety of products for the aftermarket. We also have a brake caliper remanufacturing facility in McCook, Illinois.

Our primary business focuses on supplying brake pads and rotors to individual do-it-yourself customers who are strictly an aftermarket supplier. We do not serve OEMs, that is, auto producers that make cars.

My point today is straightforward. The imposition of 25 percent tariffs on imports of brake rotors and brake pads will serve no role in accomplishing the objectives of Section 301 investigation but rather will simply harm individual auto owners who could least afford an unexpected expense and thereby quite possibly lead to more accidents, layoffs, and make roads less safe.

Let me explain. Important point number one, Power Stop purchases all its brake rotors and drums directly from privately owned Chinese producers of brake drums and rotors. These companies have absolutely no ability to pressure the Chinese government to change its policies and practices.

And most importantly, there are no aftermarket manufacturers of brake rotors and drums in the U.S.A., and for that matter, no rotor and drum suppliers that I have knowledge of anywhere in the world that can service a small percent of the U.S. consumption of rotors and drums, even at a 25 percent premium. With a 25 percent duty, we will flat out have no other choices than China.

Moreover, automotive parts, and specifically, brake pads, rotors, and drums are not part of the universal products industries found to have experienced an alleged unlawful actions by Chinese government. Nor were there any public comments or testimony, including from any U.S. businesses, supporting inclusion of brake pads and rotors in the first Section 301 list.

Important point number two, open markets are particularly critical in the automotive industry. For auto parts in particular, it is hard to imagine a more interconnected industry that depends on global supply chains.

Consequently, the business reality is that the overwhelming majority of brake pads and rotors are sourced from China for the global aftermarket. This is particularly for those brake pads and rotors supplied to the do-it-yourself segment. There are limited quantities, less than five percent of brake rotors, drums, brake pads, produced in the United States, primarily for racing and specialty applications.

The business reality leads to important point number three: increasing the cost of brake pads and rotors is also a safety issue. There are roughly 270 million vehicles on the road in the United States and on the average of 11.6 years old. Consequently, most cars will require new rotors and pads at some point in order to continue to operate.

There's no question that a dramatic increase in the cost will increase individuals to go as long as possible, even beyond the guidelines before replacing them. However, it is not an exact science predicting exactly when brake pads and rotors will stop working. Hence, there's a real safety risk that can result from dramatically increased costs of brake pads, rotors, and drums to the do-it-yourself customer.

Important point number four, the auto

owners who change or own brake pads and rotors are those individuals who could least afford unanticipated major expense. It's been my experience that a large percent of individual customers who purchase stock replacement brake pads and rotors are in a demographic of blue collar families who live paycheck to paycheck.

Note that we cannot quantify annual salaries of the do-it-yourself customer who purchase brake pads and rotors and installs them themselves. But most auto parts retailers that serve the do-it-yourself customer tend to be located in blue collar neighborhoods. It simply makes no sense to impose an extra tax on those families and attempt to change the Chinese government policies and practices concerning high technology products.

This concludes my testimony. Thank you for providing Power Stop the opportunity to share its views on this important matter. I'd be pleased to answer any questions that you have.

MS. BELLAMY: Thank you. Our next

witness is Jon Tilley of BTIC-America Corp.

Mr. Tilley, you have five minutes.

MR. TILLEY: Thank you. Good afternoon and thank you for the opportunity to express our urgent request to remove items HTS 73110030, DOT-TC High Pressure Gas Cylinders, HTS 73110060, Acetylene and Cryogenic Cylinders, and HTS 73110090, UN-ISO High Pressure Gas Steel Cylinders.

Imposing tariffs on the above products would not achieve the intended goal behind tariffs. It would not energize domestic production, rather would limit supply, threaten safety, and cause unnecessary harm to American businesses and consumers.

Currently, there is only one U.S. manufacturer of these cylinders, and they can only meet 50 percent of the U.S. market's demand. The U.S. relies on imports from China to make up the remaining shortfall. And over the last 20 years, BTIC has furnished a consistent supply of safe DOT-ISO approved cylinders, all while complying with already existing duties of 15.8 percent.

But if the proposed tariffs take effect, it will become financially impossible to continue importing these products. Currently, some of the products we import are not even made by domestic manufacturers and are only available from China. Even those items that are produced in the U.S. are produced in a such limited quantity that without supplemental Chinese supplies, product would drop and prices would soar.

An example of this is an asbestos-free acetylene cylinder sold in the U.S. market. These cylinders are only manufactured by two companies in the whole world: one is domestic and the other would be China. The loss of this item and other similar type cylinders would have a negative impact on important U.S. service industries, such as education, medical research, firefighting, and ship building, all of whom depend upon a consistent supply of both ISO and DOT cylinders in their daily operations.

Chinese cylinders are consistent in

their quality and safety, continually meeting and-or exceeding current DOT regulations. They have proven so reliable, they have been incorporated in the education and training for domestic companies.

American-made products, including brass, steel, and aluminum, are exported from the U.S. to China in the completion of these cylinders. The proposed tariffs would not only have a damaging effect to the end user, it would hurt American-based companies that rely on the exporting of their products to China for their companies' own financial futures.

The technology to produce these cylinders is a mature technology and has nothing to do with the Made in China 2025 program. The technology behind these products has no strategic value, poses no threat to U.S. national security, nor does it impact U.S. jobs.

BTIC is owned and staffed by proud Chinese Americans who have diligently complied with all of the existing duties and regulations.

Unfortunately, if the proposed 25 percent tariff is adopted, it would limit supply, cause hardship to our customers, and hurt both our employees and the U.S. consumer.

These tariffs will not create additional jobs nor they make the U.S. more competitive in this market. They will not spur additional domestic growth nor will it improve competition. These tariffs would merely punish a single foreign supplier all at the expense of U.S. businesses and consumers.

In light of this, we strongly recommend that the above-mentioned cylinders be removed from the list. We're grateful for your consideration and your time.

Thank you.

MS. BELLAMY: Thank you. Our next website is Andres Rubio of Maximum Direct Transport.

Mr. Rubio, you have five minutes.

MR. RUBIO: Good afternoon, and thank you for the opportunity to testify today.

My name is Andres Rubio. I am the president of Maximum Direct Transport, Inc. We are a local transportation company hauling from the Los Angeles and Long Beach port district, operating a fleet of specialized equipment in the space overweight intermodal ocean borne containers.

There are a variety of importers and exporters identified as beneficial cargo owners shipping their goods through our port terminals. Our port complex here in Los Angeles and Long Beach, California represent 40 percent of our nation's cargo.

Over 70 percent of the goods are trades that originate in China into our nation. The goods consist of furniture, auto parts, apparel, electronics, and footwear. Additional commodities that are shipped heavy into our ports include aluminum logs, steel pipes, bottled beverages, bottled water, tile marble, resin, liquid bulk cargo, et cetera.

The services we provide as a unique

specialized transportation cargo service and use of equipment that legalizes a class of heavy cargo transported from ports and through local cities and interstate highways.

The unique equipment utilized we need in our space of heavy cargo are triaxial chassis that are custom built to specification which reflects the precise measure of weight and length per chassis that enables our fleet to legally haul overweight cargo and conform to weight restrictions governed by the state, city, and federal regulations.

I am here to urge the Administration to remove classified under HTSUS 8716.39.00 from the list of proposed products subject to the 25 percent tariff. This equipment is the driving point and sole purpose of my business. We face several challenges and competitive disadvantages in our trucking community, especially in our specialized service of overweight transportation.

There are carriers today that haul this freight without the correct equipment and expose the public to potential harm and also expose the end client to punitive damages that insurance underwriters will not cover. There are very few carriers within our ports who understand these risks. There are also a few carriers who, like us, invest a substantial amount of money to purchase or lease equipment from the manufacturers and leasing companies who produce this type of equipment.

The market demand for heavy cargo is high and not just from the California ports but across our nation. There is a need to increase the pool of specialized chassis nationwide that legalize a variety of carrier cargo weights transporting standard and heavy cargo safety to the shippers' distribution centers and, finally, to the end consumer.

Operating efficiently is already a challenge because of factors such as load tariff rates and low profit margins. We also face competitive disadvantages with operators hauling illegally and operators who use noncompliant or incorrect equipment.

The proposed tariff increase on chassis would have a devastating direct impact on all operating costs for our business. Maximum Direct Transport, Inc. relies on cargo imports from China because there are insufficient U.S. producers of chassis and third-country suppliers to meet our demand of specialized triaxial chassis.

We have been dependent on custom built triaxial chassis shipped in from China as there is a lack of U.S. producers to meet the chassis building demand. Within the U.S., there are a few chassis builders. There are very few chassis builders and manufacturers that cannot meet this demand of building these specialized triaxial equipment.

The impact of the proposed tariffs on Maximum Direct Transport would cause severe economic harm. The cost to operate efficiently is already a challenge with low profit margins and the raised tariff rates and the high cost of equipment maintenance and other associated fees.

The proposed increased 25 percent tariff would have a negative impact on my business. The proposed increase of potential tariff on container chassis would be detrimental to current pricing structures, contractual agreements with dedicated equipment.

There would also be a loss of business from cargo owners who would ship less containers throughout ports and pull away from shipping heavy cargo. In addition, there would be a reduction in employment within our company as we would not be able to sustain an increase in expense.

Finally, the proposed tariffs would not achieve the Administration's policy objectives. Chassis are not a high technology product or industry that the USTR identified as being a concern in its investigation. Maximum Direct Transport believes in free and fair trade. However, the imposition of these tariffs will not achieve those goals.

Thus, for the foregoing reasons, Maximum Direct Transport respectfully requests that USTR remove chassis under the HTSUS 8716.39.00 from the list of products to your proposed 25 percent tariff.

I would be glad to answer any of your questions, and we thank you for the opportunity to be here. Thank you.

MS. BELLAMY: That concludes this panel.

CHAIR BUSIS: Ms. Travis?

MS. TRAVIS: My question, could you help me pronounce your name? Is it Auw?

MR. AUWAE: Just think Hawaii, Auwae, like the state.

MS. TRAVIS: Great. And hopefully, you're not endangered by any flooding or severe -- okay.

MR. AUWAE: Not currently.

MS. TRAVIS: Mr. Auwae, my question for you is, what percentage of sales in your business or your industry depend on imports from China, and are there alternative sourcing options? And in addition, are there any domestic manufacturing partners?

MR. AUWAE: So we're, like, a Ford dealership, and that would be asking us to sell Buicks. So that would be a really tough conversion for us to take on. The finished products that we sell that come from China, part of the manufactured end user, is about 40 percent of our current business. So it would have a dramatic effect on what we do.

In addition, there are U.S. manufacturers. But with the demand in what we call the overrode transportation industry, we're sold out through the fourth quarter of 2019. And they're struggling to supply what current needs the transportation industry has.

Our competitors also source from suppliers abroad, and that would have a detrimental effect. So the suppliers in the U.S. are already maxed out and don't have the capacity to keep up with demand that is currently occurring.

MS. TRAVIS: And again, no other sources except for China in terms of third countries?

MR. AUWAE: Correct. These are finished products that require a lot of casting and technology to develop. That could be done, but it probably would take years before they could ramp up to be able to handle the U.S. market and the demand that we have currently.

MS. TRAVIS: Thank you.

MS. KNISLEY: Mr. Drew, can you tell me if there's other countries you can source the tubes from? And if so, which ones?

MR. DREW: There are other countries that produce seamless brass and cupronickel tubing. But those are the very countries that we would be competing with. For instance, western Europe, the cost associated with bringing that product in would be detrimental to our business. Other countries would be Mexico, Russia, and several western European countries.

MS. KNISLEY: Okay. Thank you.

MS. PSILLOS: My question is for Mr. -- Dudenhefer, correct? Okay. In your testimony, you highlight the difference between the delivery time between the domestic and the Chinese suppliers. Is that mostly because of the capacity issue? And has the domestic capacity increased or decreased in recent years? And additionally, what is the turnaround for any third-country suppliers?

MR. DUDENHEFER: The domestic supply has increased a bit. But its current demand for the market for new chassis, they have not kept up with. Their ability to produce in North America, including Mexico and Canada, is less than 25,000 units for a standard chassis that we're looking for. And the current demand in the market is about 50,000 units a year.

MS. PSILLOS: And are any of these producers, are they the same producers of the shipping of the actual containers as well? Or are they completely different producers?

MR. DUDENHEFER: No, some of them do produce containers but nothing in North America, nothing in Mexico, U.S., or Canada. All containers are produced overseas, mainly China.

MS. PSILLOS: And then are these products, I guess, the domestically produced ones, besides the cost and the delivery time, are they otherwise comparable, the domestic and the imported ones?

MR. DUDENHEFER: Right. When we go overseas, we're looking to match the same quality you're getting in the U.S. market.

MS. PSILLOS: Thank you.

MS. HOLMAN: Good afternoon. My question is for Mr. Hartford from Allegheny Technologies.

Mr. Hartford, could you please elaborate on the use of ATI's zirconium products in addition to civil and defense nuclear applications? For example, what percentage of your business is used for these applications?

MR. HARTFORD: The Navy nuclear is a large percentage of our overall revenues. It's a number I would prefer to put into a post-hearing confidential brief which we'd be happy to do that.

I think I would also include there, many of the defense applications that we supply zirconium and hafnium to are sensitive and we'd prefer to not to talk about them here. But we can give you more description in a post-hearing brief.

MS. HOLMAN: Yes, if you could do that, we would greatly appreciate it. And we understand the sensitivity. And could the U.S. sourcing of ZOC and other inputs, could those be ramped up at all?

MR. HARTFORD: Could we buy more?

MS. HOLMAN: Well, could they produce more so that you could buy more?

MR. HARTFORD: I believe that they could, our current sources, keeping in mind that, today, ZOC is only produced in China. I can confirm for you whether or not our ZOC supplier or suppliers could supply us with more.

MS. HOLMAN: Okay, thank you.

CHAIR BUSIS: Also, it was somewhat unclear, the relationship between the hafnium and the zirconium products. Is it you use the zirconium to produce hafnium products, or --

MR. HARTFORD: It's a good question. In nature, those two elements come out of the ground together. One of our processes is to separate zirconium from hafnium. It's a very tricky chemical process and then a metallurgical process. And then they are used in related applications but somewhat different applications. So they come out of the ground together in a very fixed ratio. And if you want hafnium, you get zirconium at the same time.

MS. PSILLOS: This question is for Ms. Lord.

Can you elaborate on the role your refractories and electrodes play in supporting the U.S. steel manufacturing industry?

MS. LORD: Sure. Can you hear? Is it on? Okay.

So ceramic refractories are used to line furnaces and ladles within the steel mills themselves. So you can't actually melt steel without our products lining the furnaces or the ladles.

And graphite electrodes are used, again, in the same type of application, in an electric arc furnace, which in the United States, we have converted almost all of our steel mills into electric arc furnaces because they're a lot cleaner.

Does that answer your question?

MS. PSILLOS: Yes. And then in addition, in your testimony, you mentioned that there's limited or no domestic raw material of the products that you've requested removal. And in the attachment, that was 33 different HTS lines. Are all of those unavailable domestically? Or if not, is it just a subset of those, and which one are there domestic production of?

MS. LORD: Sure. So there are three domestic large refractory companies in the United States as well as one small electrode company. They all, however, have to import the raw materials to make their product from China. They're just pressing them and kiln drying them here in the

United States. However, the raw materials are still all imported.

MS. PSILLOS: Okay. But all 33 of those raw materials --

MS. LORD: So not --

MS. PSILLOS: -- are not available?

MS. LORD: Some of these are actually the finished goods on here, and some of them are the raw materials. We import both because the raw materials are still used in the steel manufacturing process themselves as well.

MS. PSILLOS: Thank you.

MR. SULEWSKI: Hello. This question is for Mr. Scott. You had testified that the majority of brake pads and rotors in the U.S. DIY market are imported from China and that domestic supplies are limited. What other foreign sourcing options are there for DIY users for brake parts?

MR. SCOTT: So I'm going to just put that in two categories, rotors and drums, and then brake pads in a separate category.

Rotors and drums, we import over 80

million units a year from China. There's simply no other alternatives that even come close. I mean, there's a small facility in Brazil, there's a little bit out of India, and that's it. And that's a couple million pieces possibility. So for rotors and drums, there are no other options, period.

For brake pads, there are some other global sources. We do import brake pads from Korea. Some are made in India. There's some facilities in Mexico. So for brake pads in particular, you have other options. But China is still a huge chunk of it. There wouldn't be enough worldwide capacity.

So when you see a brake pad, there's a couple thousand unique part numbers. So you have to create a tool. There's a big process to doing that, so you just can't turn a switch on. But rotors and drums, there's absolutely no other options.

MS. SMITH: Good afternoon. My name is Tanya Smith, and I'm representing the Small

Business Administration. And my question is for Mr. Jon Tilley.

You state in your testimony that U.S. manufacturers currently meet about half of the market demand for high speed gas cylinders. Can you explain the factors that has led to your decision to partner with firms from China rather than source from the domestic manufacturer? Thank you.

MR. TILLEY: Thank you for the question. Currently, there is only one domestic manufacturer, Norris Industries, that produces high pressure steel cylinders. They have been the only one for the last approximately 15 years.

So China had become the logical source to source for because they have the production and the availability to bring those products to the United States for us. If we had another source to produce from that was domestic we could look at. But unfortunately, there is no other one.

The intellectual property to make these cylinders is not very high, but the labor intensity of it is. And so that's why we have teamed up with China on this product.

I hope I answered your question on that one.

MS. SMITH: Yes, you did. Thank you.

MR. TILLEY: Thank you.

MS. TRAVIS: My question is for Mr. Rubio.

I realize your triaxial chassis are built to specs. I'm wondering, are there any producers of triaxial chassis in the U.S., and have you ever sourced from U.S. producers?

MR. RUBIO: Thank you for the question. Yes, there are, and we have looked into, domestically, for that type of chassis. However, in our region, in our area, there are very few available chassis to meet the high demand of the volume cargo that comes up in these ports. So our main source has been from China.

MS. TRAVIS: What do you think it would take, just out of curiosity, to meet that high demand? I mean, so in other words, you're saying capacity isn't sufficient in the U.S. chassis -- or specialized chassis industry?

MR. RUBIO: That is correct. It is a very high demand. What that would take, the availability to meet that and the certain criteria of our chassis. And to elaborate a little more of this type of chassis is we go through the already 90-day BIT inspections through Department of Transportation. On top of this inspection, we have permits that allow us to haul a higher gross vehicle weight, up to 95,000 pounds. That's permitted in California. This is an additional inspection that we go through.

So these chassis, because of the weight that we haul and the demand of the current customers that we do business with, the volume is just far too greater than what is available in the chassis pool. So I strongly feel that the domestic providers in today's market are not able to build chassis to meet the demand.

A second example that I may offer as well is in truck purchasing. Truck builders that are manufacturing trucks today, there's an average of six- to nine-month waiting list.

I hope that answered the question.

MS. TRAVIS: Thank you.

CHAIR BUSIS: Mr. Rubio, do you have a sense of the percentage of your chassis are made up of steel by volume or by value?

MR. RUBIO: The percentage, I'd say 90 percent.

CHAIR BUSIS: It was mostly a fabricated steel product --

MR. RUBIO: That's correct.

CHAIR BUSIS: -- right? Okay. All right.

Ms. Bellamy, you may release this panel and call the next panel, please. Thank you.

MS. BELLAMY: This panel is released. Can Panel 38 please come forward.

(Pause.)

CHAIR BUSIS: Ms. Bellamy, you may call the room to order, please.

MS. BELLAMY: Will the room please come

to order. Our first witness on this panel is Toby Baran of Action Wholesale Products, Inc.

Ms. Baran, you have five minutes.

MS. BARAN: Thank you for allowing me to testify this morning before the Section 301 Committee.

My name is Toby Baran. I'm the general manager for Action Wholesale Products. Action Wholesale Products is a family owned and operated business founded in 1979, 39 years ago, by my dad, Mel. I grew up at Action Wholesale, and I took over day-to-day operations just over 20 years ago.

Our corporate headquarters and distribution warehouse are both located in Anaheim, California. We currently employ 16 people full time with all but two of those people being the main breadwinners for their family. To this end, my father has invested everything he has into this company.

Action Wholesale provides storage and material handling solutions to customers in the western United States. Action Wholesale's products, including shelving and pallet rack, are sold to small businesses with small- to medium-sized storage rooms and warehouses or sold to residential applications. Small businesses and homeowners throughout the western United States rely on Action Wholesale's shelving and pallet rack to meet their storage requirements and business needs.

These specific Harmonized Tariff numbers directly affecting Action Wholesale are 9403.20.00, 9403.90.80, and 8427.90.00.

As a small company, Action Wholesale is unable to absorb the tariffs. We face extremely low margins. Our pricing is directly based on the cost incurred to produce the product, and we are in a very competitive market. Our current gross margin is 47 percent with 39 percent expenses. As a result, any tariff imposed on our products will be passed directly onto the customer, and we will see a dramatic decrease in sales.

If the tariffs are imposed, Action Wholesale and its many customers will suffer injury. Frankly, many customers will not be able to purchase our products, including shelving and pallet racks, if the prices increase. As a small business, the tariffs will severely damage Action Wholesale and threaten our very existence, eventually leading to elimination of our U.S.-based workforce.

Because we deal with businesses being established or expanding, Action Wholesale is considered a leading indicator regarding the economy and the direction it is headed. If businesses are not opening or expanding, then companies are not purchasing shelving and rack, and we feel the impact of that almost immediately. Because of the current economic uncertainty, we are already experiencing a downturn and we have laid of three full-time employees in the last 20 days.

The tariffs have been proposed, in part, to prevent unfair Chinese actions and practices regarding technology transfer, IP, and innovation. As I mentioned, Action Wholesale is a direct importer of shelving and rack. Shelving rack manufacturing process do not involve risk of IP infringement or theft of trade secrets. Our Chinese suppliers do not need United States IP to produce these items. And for this reason, I'm humbly requesting the tariff posed listed in my written and spoken comments be removed from the list.

In some, the proposed tariffs will have a disproportionately adverse impact on U.S. consumers and small businesses throughout the western United States. The inclusion of these tariffs will not assist the United States in altering or changing the Chinese government's policies and practices and actions on intellectually property violations and trade secret theft.

Rather, the inclusion of the aforementioned tariff codes will result in increased prices for American consumers and small businesses. The tariffs will be crippling to Action Wholesale, a multi-generational American business, through and through.

We therefore respectfully request the removal of HTS Codes 9403.20.00, 9403.90.80, and 8427.90.00 from the list of potentially subject codes of 25 percent tariff pursuant to the Section 301 investigation.

Thank you for your time and consideration this afternoon. I look forward to answering any questions you may have.

MS. BELLAMY: Thank you. Our next witness is Timothy Baucom of Shaw Industries Group, Inc.

Mr. Baucom, you have five minutes.

MR. BAUCOM: Hi, I'm Tim Baucom, Executive Vice President of Shaw Industries, a leading floor covering manufacturer headquartered in Dalton, Georgia.

Our company makes and sells quality flooring products for independent retailers, big box retailers, home builders, and major end users throughout the United States for both the residential and commercial markets. Shaw has approximately 90 manufacturing and distribution centers across the United States, employing over 22,000 associates.

We respectfully request that you remove vinyl flooring tiles, or LVT, from the list of imported goods from China subject to the proposed 25 percent tariff.

These products are innovations on sheet flooring, and the earliest LVT products were flexible and could leverage modified legacy manufacturing infrastructure. The newest and fasting growing products, however, are rigid LVT. Manufacturing rigid LVT requires fundamentally different manufacturing investments and demand is exceeding all current worldwide capacity. I will collectively refer to both flexible and rigid products as LVT.

We request relief for three reasons. One, the proposed tariff will harm the U.S. flooring industry and American consumers, jeopardizing our industry's fragile recovery from the Great Recession. The flooring industry represents thousands of American workers in small, medium, and large businesses. Imposition of the proposed 25 percent tariff on LVT would cause economic harm to American consumers, U.S. workers, and U.S. businesses.

The flooring industry was hit hard in the Great Recession and lost more than 40 percent of its unit volume. As our industry recovered, LVT became the fastest growing flooring choice because it's both beautiful and functional. Premium priced LVT is exceptionally durable, waterproof, easy to install, and easy to maintain.

The proposed 25 percent tariff will materially and unfairly increase LVT cost. The tariffs cannot be fully absorbed and will be passed on to retailers. If LVT prices increase substantially, American consumers may choose to postpone their flooring purchases rather than downgrade to other functional but less attractive substitutes. Consumer postponement could stall our industry recovery.

Two, American consumers will pay higher

prices for LVT because there's insufficient alternative capacity to replace Chinese imports, notwithstanding significant investment in U.S. production.

Shaw's strategy has been to listen to our customers and service their dynamic needs through a combination of domestic manufacturing and global sourcing. Shaw has invested 1.5 billion dollars in the last five years to modernize, expand, and build U.S. manufacturing facilities, including 139-million-dollar, state-of-the-art LVT manufacturing facility in Ringgold, Georgia. There is no company in the flooring industry more committed to domestic manufacturing than Shaw.

However, without Chinese supply, there's inadequate manufacturing capacity to service U.S. demand for rigid LVT. In 2017, according to U.S. census statistics, there was a total of 2.66 billion square feet of vinyl flooring tile imported from all countries with 83 percent of that total coming from China.

We believe the available unused

capacity in Korea, the European Union, and the United States combined could replace no more than 25 percent of the total imported LVT per volume. The lack of capacity from non-Chinese sources will result in increased costs to America. Any claim that U.S. producers are capable of supplying the market with domestically produced LVT or LVT sourced from other third countries is simply incorrect.

Three, the proposed tariff on LVT will not advance the Administration's goal of helping U.S. high technology companies that China seeks to replace in China and dislodging the rest of the world through its Made in China 2025 plan. Production of LVT does not leverage the technologies targeted within China's industrial policies. Imposing tariffs on LVT will not change China's unfair acts, policies, and practices that threaten U.S. intellectual property.

Fortunately, Shaw was never faced any of those well-documented Chinese unfair trade barriers. Accordingly, we respectfully request that you remove LVT from the list of items subject to the proposed 25 percent tariff and support U.S. business and the American consumer.

Thank you for this opportunity to testify.

MS. BELLAMY: Thank you. Our next witness is Kurt Nagle of American Association of Port Authorities.

Mr. Nagle, you have five minutes.

MR. NAGLE: Thank you for this opportunity to testify today.

The American Association of Port Authorities, or AAPA, is appearing on behalf of our U.S. public port members who own and manage facilities that import and export most of our nation's international cargo. AAPA is concerned about the overall impact of additional Chinese tariffs on port-related jobs as well as specific concerns related to cranes and cargo-handling equipment used at ports.

Seaports are at the front lines of the current uncertainty surrounding U.S. trade policy.

As international trade hubs, seaports are vital economic engines. Seaport cargo activity accounts for over one-quarter of the U.S. economy, generates nearly 4.6 trillion dollars a year in economic activities, and are responsible for more than 320 billion dollars annually in federal, state, and local tax revenues.

It's important to recognize that international trade, both exports and imports, is good for American workers and our economy. In terms of jobs, the cargo moving through U.S. ports support more than 23 million American jobs. Additionally, for every one billion dollars in export goods shipped through U.S. ports, 15,000 jobs are created.

With today's worldwide supply chain, American manufacturers, farmers, and businesses often rely on ports to handle the raw materials, supplies, and semi-finished components needed for production here in the United States. And the expansion of the 301 tariffs would cause additional harm to these U.S. businesses, both large and small.

The U.S. Global Value Chain Coalition reports that one in five American jobs are linked to exports and imports of goods and services and millions of those jobs are tied to the global value chain. Prior to implementing these tariffs, we urge you to carefully consider the negative impacts they would have on port and other trade-related American jobs nationwide, including the effects of likely retaliatory responses.

The impact of expanded 301 tariffs on cargo moving through ports would be significant. Including the additional 200 billion being proposed, the total Section 301 tariffs on Chinese commodities and Chinese retaliatory responses to date would cover 8.4 percent of trade through America's seaports by value. In California alone, the 301 tariffs and responses would impact as much as 20 percent of containerized cargo imported throughout the state, representing 63.6 billion dollars of trade value.

AAPA is also greatly concerned about the impact of specific tariff increases on U.S.

ports' ability to make needed investments in port infrastructure to meet the significant growth in trade volumes and enhance our international competitiveness, a stated priority of this Administration.

There is considerable pressure to make ports more efficient, enhance environmental performance, and reduce the impact of port operations on local communities. In response, U.S. ports and their private sector partners plan to invest significantly in improving port infrastructure by spending 155 billion dollars between 2016 and 2020.

As business leaders, however, they are concerned about making these sizable investments in an unstable trade environment. In addition, the proposed new tariffs would dramatically increase the cost of key aspects of port infrastructure investments.

Container ports especially would be negatively impacted by the new tariffs placed on cranes under Subheading 8426.19.00. Several U.S.

ports have Chinese cranes on order with a cost of up to 14 million dollars per crane. The 25 percent in additional tariff would cost each of these ports millions of dollars and reduce U.S. ports' competitiveness with Canadian and Mexican ports who are also vying for U.S. cargo.

There is no U.S. manufacturer for these cranes. And in the case of low profile cranes that are required for ports near airports, the only experienced manufacturer is from China. Therefore, AAPA respectfully requests that cranes used in port operations be exempt from the tariffs. We also request that USTR, in any future decision, exempt port yard equipment that may fall under other subheadings which were referenced in this 301 expansion.

Thank you for your time today in listening to the negative impact these tariffs could have on port-related jobs, U.S. competitiveness, and infrastructure improvements that are underway at ports. We sincerely hope that port cranes and equipment will be exempt from the expanded 301 tariffs and that you carefully consider the impact of these tariffs on U.S. jobs that are tied to the international supply chain.

Thank you.

MS. BELLAMY: Thank you. Our next witness is Kenneth O'Brien of Gemini Shippers Group.

Mr. O'Brien, you have five minutes.

MR. O'BRIEN: Thank you for the opportunity to address the timely and critical issue of tariff implementation. Good afternoon.

My name is Ken O'Brien, Chief Operating Officer of Gemini Shippers Association and the Fashion Accessory Shippers Association. We're a nonprofit association that provides our nearly 250-member companies the insight and capacity to achieve greater supply chain efficiency through volume and service agreements with the shipping alliance.

Our member companies range in size based on their imported container volume from as few as 20 containers a year annually to over 10,000 containers a year. Collectively, our members import a sum that would total up to equally a top 20 importer in the United States. Our members are general small- or medium-sized U.S. companies that import consumer products. Many of these projects are not manufactured at all in the United States.

Imposing an additional 25 percent tariff on these everyday consumer products will have a significant negative impact, both on consumers and on our member companies and their U.S. workforce. We estimate that our members employ tens of thousands of U.S. workers. These are some of the real hardworking Americans who will be hurt by increased tariffs.

These tariff increases will result in higher prices for U.S. consumers and cause significant harm to U.S. companies. Some examples of negative impacts we see on increased tariffs, for example, one of our members imports disposable medical gloves from China. Today, they pay a duty rate of 25 percent when they had no duty to start with.

Cotton baseball hats will increase from seven-and-a-half percent duty up to 32-and-a-half. Inexpensive leather handbags, like the type you would bring to school, would go from 10 to 35 percent. Hard-sided suitcases would go from 20 to 45 percent.

The increases I just noted represent a significant increase, both to the wholesale and to the retail, paid by the American consumer. These products I've just mentioned and many of the products that our members import are not designer, luxury, or high tech goods. They're, in most cases, necessities for hardworking American families.

The proposed tariff increases will harm American consumers and likely result in the loss of jobs for many of our members' employees. Importing these everyday household and consumer products does not threaten American security. But these increased tariffs threaten U.S. small businesses owners, their employees, and the American consumers through both increased costs to importers which may ultimately be borne by the consumer or decreased margins or job by our importing member companies.

On behalf of our member companies, I ask you to reconsider the implementation of these damaging tariffs. Thank you for your time, and I look forward to your questions.

MS. BELLAMY: Thank you. Our next witness is John Reinhart of Virginia Port Authority.

Mr. Reinhart, you have five minutes.

MR. REINHART: Thank you very much. Thank you, members of the Committee, for the opportunity to present to you today.

My name is John Reinhart. I'm the CEO and Executive Director of the Port of Virginia. We are the third largest port on the East Coast of the United States.

I'm here to explain why it is in the national economic interest of the United States to remove the tariff provisions from gantry cranes from the list of products subject to the additional duties. To summarize what I'm going to explain in more detail, putting tariffs on these high cost, low tech pieces of equipment would do nothing to address China's egregious IP or technology transfer practices nor would it address China's aggressive economic policies reflected in Made in China 2025.

Rather, the imposition of duties on gantry cranes would threaten a carefully planned critical East Coast infrastructure product to modernize the Port of Virginia. We serve as a gateway of the global markets, and we serve much of the heartland of the United States.

Thirty-five percent of the freight that comes in or out of our port goes to the Midwest, goes to Ohio, Illinois, Kentucky, and other states. So that large percentage is the highest percentage of freight of any port on the East Coast moved intermodally.

The cranes we're discussing will be located in Virginia and their loading-unloading containers bound for cities like Columbus, Chicago, Detroit, Louisville, and other great cities. The project has impacts, not just the Port of Virginia, but it impacts the Commonwealth of Virginia and the heartland.

Ocean carriers are now sending larger and larger vessels to just a few ports in order to minimize their costs. With the opening of the Panama Canal in 2016, the East Coast is now regularly seeing 14,400 TEU ships, 20-foot equivalent unit ships, weekly and multiple times each week.

With those vessels, they are 33 percent smaller than the larger ships that are sailing the international waters that are now clocking in at 21,000 TEUs. What we have tried to do is design a project that would modernize our port to be world class so that we could effectively handle ships in the 16, 18,000, 20,000 TEU range.

At the Port of Virginia, we wanted to be sure that these larger ships were not impeded or hampered calling our East Coast because they reduce the cost and make it more efficient to ship. In February of 2017, we broke ground on projects that will total 700 million dollars of construction. They would add 1.7 million TEU of capacity to our facilities.

The cranes that are now of subject to the tariff are an integral part of that necessary expansion. To put the project in perspective, last year, we handled just under three million TEUs. So we're adding a million, seven to our current capacity. We are looking to create jobs because the freight that moves across our port helps to create jobs not only in the port but in all the related manufacturing supply chain industries as well as the transportation network.

Having the infrastructure on the land side of the equation isn't enough. In 2018, the Army Corps of Engineers authorized the Port of Virginia to go from 50 feet to 55 feet deeper, go from a 1,000-foot channel to 1,400-foot channels inside the Chesapeake Bay and 1,300 outside the Chesapeake Bay to allow us to handle two-way traffic of these largest vessels. That would make our port the deepest, widest, and safest port on the East

Coast. That is a project that's 350 million dollars that is in design in engineering right now.

It's important to note ours is currently the only container infrastructure project of this magnitude going on in North America. We are trying to make sure we can compete in the United States on a global stage. Equally important to note is we're already seeing the benefits of the investments we've been making in the speed and velocity with which the cargo moves, making it more efficient, reduces cost, and benefits businesses along the supply chain.

We also want to make sure that you're aware that the companies that locate along these transportation nodes make critical investments. And with the subject tariffs, some of those investments are being delayed because they're not sure if they'll be able to move their freight or handle their business.

We've created jobs throughout the Commonwealth, and we're going to compete on speed to market. It's a cornerstone, and it's what we will do so that we can move freight effectively. In August of 2017, our board approved the purchase of these four cranes at 41 million dollars approximately.

The cranes are mostly steel structures because all of the other content, the drives and the technology we use as content from the U.S. and other European countries. The duty would greatly increase our cost and make the infrastructure at risk. Thirty percent of the project is U.S. content.

Further, the cranes that were purchased from China are really just large steel structures. They're 90 percent complete. They're going to go on the water this October to be delivered in January. It's important to note there are no U.S. manufacturers of these types of cranes, none whatsoever. There haven't been for more than three decades. So this is the only place that we could get this type of equipment.

So imposing the tariff on these cranes would be a major impact to our infrastructure project, trying to make America more competitive on a global market. We look forward to having the opportunity to drive down the cost of shipping through the United States, both import and export, because we're one of the few ports that are balanced. We export as much as we import. So it's important for the American manufacturers, agricultural communities that we have an efficient facility. There is too many communities depending on us to get our infrastructure right in the United States.

In summary, the Port of Virginia is a vital contributor to our economy. We're investing heavily to ensure the ability to compete and serve in the U.S. economy. These tariffs significantly put our infrastructure advancement at risk. These tariffs do not accomplish anything intending to combat China's illegal and egregious and unfair practices.

For the foregoing reasons, we respectfully request that the Committee remove gantry cranes from the list of products to covered under the tariffs. I'll be happy to address any of your questions.

Thank you.

MS. BELLAMY: Thank you. Our next witness is Paul Young of Surfaces Southeast, Inc.

Mr. Young, you have five minutes.

MR. YOUNG: Good afternoon. My name is Paul Young, and I'm the CEO of Surfaces Southeast, Inc., a Miami-based leader in the design, manufacturer, and marketing of specialty wall and mosaic tiles, as we refer to them as SWAM, S-W-A-M, products.

I'm here today not only representing Surfaces and our 60 employees but also a coalition of four other key companies in our industry: MS International, Jeffrey Court, GBI Tile & Stone, and The Marble Shop. Together, our five companies employ nearly 2,000 people across 30 states and Puerto Rico.

The proposed 25 percent tariff will greatly impact and possibility gravely injure our small- to medium-sized businesses and our nearly

2,000 employees, their families, and hundreds of other similarly situated businesses and impact millions of homeowners around the country. For example, in my company's case, the proposed 25 percent tariff is over 100 percent of my current payroll and is a severe threat to my business.

I'm holding two examples of the types of products we sell. And also, in the last page of our handout, you'll see some so you're clear on the type of category that we are in. These are typically made of glass, stone, ceramic, metal, and other combination of materials.

As I'm sure you can already see, these SWAM products are used in millions of homeowners around the United States for their bathrooms, kitchens, and pools, from new construction to starter homes to renovation of existing homes.

Mosaic wall tiles are also used widely across commercial sector in places like hotels and restaurant chains, sporting stadiums, municipal and government buildings. Our combined companies supply a large percentage of these types of products to major retailers like Lowe's and Home Depot as well as to thousands of mom-and-pop local retail stores.

This additional tariff will not be able to be fully passed on to the big boxes and local retailers or consumers. And as a result, our companies will be at risk. Further, the U.S. consumer will suffer as well due to less players like us in the market, less innovation, less competition, leading to fewer choices and higher costs.

Our companies' designers design these intricate products in the U.S. specifically to appeal to U.S. consumers' tastes and preferences. Our combined companies are some of the true innovators of this sector, designing new styles and marketing these new patterns.

I know the Section 301 proceeding is meant to foster and protect U.S. innovation. But I'm here to tell you that placing a 25 percent tariff on these goods would severely hurt U.S. innovation in this sector. If companies like mine that are innovative disappear, we are not fostering or protecting U.S. innovation at all.

Our imports fall under HTS Chapters 25, 48, 68, 69, 70, 76, and 94. And you'll see a footnote of our specific listing underneath. The vast majority of the products in this HTS subheadings under consideration and made exclusively in China. There is no meaningful manufacturing of this product in the United States or anywhere else in the world other than China.

In order to meet the demand for the high volume of these products used in the U.S. at the necessary price points, these products simply have to be made there. Producing them elsewhere, even in a country as close as Mexico, would cause the price to at least double. And they can't produce a fraction of the U.S. demand, even at those higher prices.

We also note that our products are not the type of products supported by the Made in China 2025 industrial policy and subsidy program. These proposed tariffs on SWAM products have no connection whatsoever with the Chinese government policies highlighted in USTR's Section 301 report and they're not going to impact Chinese government's actions on intellectual property or trade secrets.

On behalf of my 60-plus employees at Surfaces and the nearly 2,000 employees at our combined companies, not to mention the millions of homeowners that would be affected by these 25 percent tariffs, I appreciate the opportunity to present here today. Although we support the goals of this Section 301 action to provide a level playing field for U.S. companies and all Americans, we respectfully submit that the proposed tariffs would have precisely the opposite of their intended effect if applied to SWAM products.

In summary, if 25 percent tariffs are imposed on our specialty category, small- and medium-sized companies like ours will be devastated. The specialty segment doesn't matter to the Chinese government, and there's no alternative sourcing anywhere in the world to meet even a fraction of the demand. Consumers will face higher prices and less choices as there'll be less companies like ours.

Our specialty segment is small relative to large flooring segments, but it is everything to small- and mid-sized companies like ours that drive it.

Thank you.

CHAIR BUSIS: Thank you. That concludes this panel.

MS. SMITH: Good afternoon. My question is for Ms. Baran.

What percentage of shelving and racks do you import from China, and are there domestic producers of these products?

MS. BARAN: We currently import 100 percent of our shelving and rack from China. There is one small manufacturer on the East Coast. They would not have the capacity to make what we make. It's actually not the same product. It's a similar product. It is shelving, but it is more for residents, light duty residential use. So there is not a manufacturer in the United States that can make this product.

MS. SMITH: If not, well, can you source your product from foreign countries other than China?

MS. BARAN: I have looked and looked, and there is not another country that currently makes our product.

MS. SMITH: And there's no way to work with this other company that's on the East Coast to help them develop a better product or get up to capacity?

MS. BARAN: They are a very, very small operation. I believe they're less than 20 people, and they just don't have the capacity to do what we do. The cost would be prohibitive to -- if they could make our product, it would be so large and heavy that the cost would be completely prohibitive to truck it or train it across the United States to us in the West Coast.

MS. SMITH: Okay, thank you.

MS. BARAN: Sure.

MS. PSILLOS: My question is for Mr. Baucom. You mentioned that you do have domestic manufacturing facilities. Is there a difference between what's produced in your domestic facilities versus what you source from China?

MR. BAUCOM: In our new state-of-the-art facility, this is a rapidly changing and evolving circumstance. We're actually working with our Chinese suppliers to be able to make products so that we can service it closely. We can, today, manufacture about 15 percent of that need, but it's growing very rapidly.

Something you have to understand is that we sample these products through thousands of retail stores. So the product that you make must exactly match that. So they are in the family of but not exact duplicates.

MS. PSILLOS: Is there a price difference between what is produced here and then what you import from China?

MR. BAUCOM: Today, we are still in the ramp-up phase. It's taken us about three years to get to the point where we are. We're not utilizing our full capacity. We hope to, as we get to full capacity, to be able to compete fully. But we've not demonstrated that yet.

MS. PSILLOS: Okay. And then, also, you testified that there is unused capacity in Korea, the E.U., but that they could supply no more than 25 to 35 percent of the total volume of imports from China. Is it possible for these other countries to ramp up their capacity? And if so, do you know how long that would take?

MR. BAUCOM: It would literally take years. There are two things to remember. A lot of the excess capacity is this type technology which is fundamentally different than this type technology. So the ramp-up of this can be somewhat incremental because it can leverage older technologies. This is all new technology. So it would be very difficult to catch that up.

MS. PSILLOS: Thank you.

MR. BAUCOM: We can give you some more details of that in our confidential submission after this.

CHAIR BUSIS: Can you just give a sense the types of different -- so the luxury vinyl tile is the rigid material?

MR. BAUCOM: Luxury vinyl tile is the entire category of the product.

CHAIR BUSIS: Oh, the entire category? Okay.

MR. BAUCOM: They stay together, yes.

CHAIR BUSIS: All right. So the rigid requires different manufacturing equipment?

MR. BAUCOM: Yes. And the advantage of the rigid products is that they typically can trampoline over a subfloor. So you don't have to have as perfect a subfloor. These more flexible products over time will conform to the subfloor. So if you had imperfections in the subfloor, you would see it over time. So it's a fundamentally different technology.

MR. SULEWSKI: Hello. This question is for Mr. Nagle with the American Association of Port Authorities.

You talked about how all the different port authorities are seeking to get new cranes and that's, in part, to accommodate the New Panamax ships, right?

MR. NAGLE: That's right.

MR. SULEWSKI: And you said that they're having trouble sourcing from anywhere but China. I understand that with certain kinds of cranes, it's not available anywhere but China. But overall, are there any other manufacturers in other countries besides the U.S. or China that make these type of cranes?

MR. NAGLE: It's extremely limited. There's only -- I think it's three manufacturers. One doesn't really have a very significant market penetration and is, in fact, the manufacturer that has no experience in terms of the low profile cranes that a number of the ports need that are located near the airports and are somewhat limited in ability for the more standard cranes.

And the other manufacturer actually manufactures -- it's essentially the primary superstructure to it in China as well. So even they utilize the Chinese producers for the principal structure of it. So for all intents and purposes of any substance, China is really the supplier that the ports have as their primary, really limited options at this point.

And as I say, to your first part of your question, and Mr. Reinhart mentioned with the Panama Canal expansion, et cetera, currently, the size of the vessels are increasing. So therefore, you need the larger cranes to be able to reach into the larger vessels to be able to handle those containers moving off of those vessels, just from a capacity standpoint as well as an efficiency standpoint.

MS. KNISLEY: Mr. O'Brien, in your discussion, is it -- well, let me make sure. Sorry -- in your discussion of possible effects of small businesses, have you taken into account possible advantages of small businesses involved in producing and transporting U.S.-made goods or in transporting goods from countries other than China?

MR. O'BRIEN: Thank you for the question. I think it's safe to say that most of our member companies could look to other countries. I mean, I think sourcing patterns can change. I think the real issue that we see is really time and the cost to do so. So time, I would say how quickly they could go. And the smaller the company, the more complex it gets because there's fewer people to do the work.

As a matter of fact, our membership, I would say one of the reasons they're part of our association is they don't have the infrastructure. And so I think to go and find those sources of goods I think is certainly a problem. I think it's the time to do it. The cost to do it, certainly to get to those, to find new sources of goods is a problem. And I think the logistics to actually go and execute it, certainly, I think everything is possible. I think really it's just a time and cost issue.

MS. KNISLEY: Thank you.

MS. HOLMAN: Good afternoon. My

question is for Mr. Reinhart from the Virginia Port Authority.

In your testimony, you indicate that a Shanghai-based manufacturer is only one of three manufacturers of this type of crane worldwide. Could you tell us where the other two manufacturers are located? And do you import any of your cranes from these other two manufacturers? And would it be possible for you to shift your full purchase orders to these other companies?

Thank you.

MR. REINHART: Thank you. First off, when we put out the RFP, there were only three responses. Konycranes, which is a Finnish crane manufacturer who also does ship-to-shore cranes, but all the superstructures for their ship-to-shore cranes are also manufactured in China.

CHAIR BUSIS: Excuse me. I just want to interrupt you. You said, "responses". I'm sorry. What was --

MR. REINHART: We put out an RFP to buy our cranes back when we put the order --

CHAIR BUSIS: Okay.

MR. REINHART: -- together, a request for proposal.

CHAIR BUSIS: Okay, wait. Did the request for proposal indicate the price range you're looking for?

MR. REINHART: We identified the equipment, size, and type that we wanted. We got varying prices back.

CHAIR BUSIS: Okay. So you don't specify a price in your request for proposal?

MR. REINHART: No, not with that proposal.

CHAIR BUSIS: Okay.

MR. REINHART: We're trying to see what the market can deliver.

CHAIR BUSIS: Okay.

MR. REINHART: So we got a response from Konycranes, who's Finnish, and they build their superstructures in China, as Mr. Nagle just mentioned. We got a response from ZPMC, who is the Chinese-based manufacturer who we went with.

And the third was a manufacturer called Bedeschi, and it's Italian. But they really don't have any market penetration or any experience with these size of cranes. So those were the three manufacturers that were out there.

If you look at our civil works projects, about half of the 700 million are civil works. So we also put out a request for proposal for rail mounted gantry cranes. Those would be the ones that are working on the docks. And we had three responses for those as well. And it was ZPMC, Konycranes, and Kalmar Crane. We bought 86 of those, and they were all manufactured in Finland and Poland. No U.S. manufacturers responded on any of our special equipment that we put out RFPs on.

MS. HOLMAN: Thank you.

MS. TRAVIS: My question is for Mr. Young.

Mr. Young, in your testimony, you stated that you would not be able to pass along the tariff increases to big box stores or other local retailers. But at the same time, you said that U.S. consumers would be hurt by higher prices. Can you reconcile those two positions for us?

MR. YOUNG: Yes, I think what I meant to say but I didn't is it can't be fully passed on. Some of it probably could be passed on. The rest would have to be absorbed by companies like mine that aren't working on big margins as a middle man and would have a very significant impact on us.

MS. TRAVIS: Thank you.

CHAIR BUSIS: Ms. Bellamy, we can release this panel.

And then we will take, let's say, a ten-minute break until -- 3:55, right? Okay. Till 3:55, we'll take a break.

MS. BELLAMY: Okay.

CHAIR BUSIS: Thank you, Ms. Bellamy. Thank you.

(Whereupon, the above-entitled matter went off the record at 3:43 p.m. and resumed at 3:55 p.m.)

MS. BELLAMY: Would the room please come to order? Starting with our first panelist on 39, Mr. Mark Berman of Rockland Industries, Inc.

Mr. Berman, you have five minutes.

Microphone, please. Microphone.

CHAIR GRIMBALL: Actually - actually, before you start I should introduce myself because I think I am the new person on this panel. My name is Megan Grimball. I am from the Office of General Counsel at USTR.

Please continue.

MR. BERMAN: Thank you to the USTR and members of this panel for the opportunity to testify.

My name is Mark Berman. I am the CEO of Rockland Industries. Rockland supports including finished coated blackout fabric classified under 5907.00.60 and 5903.90.25 of the Harmonized Tariff Schedule on the most recent list of items to be subject to an additional 25 percent tariff.

We object to the inclusion of the fabrics and chemicals listed in our written comments that are used as raw materials in the production of our coated blackout fabric here in the U.S.

Rockland is a family-owned business that traces its roots back to 1832, making it one of the oldest continuously operating manufacturing companies in the U.S. It is one of the dwindling number of textile manufacturers still making products here.

We are headquartered in Baltimore with a factory in South Carolina. We provide approximately 240 jobs, most of which are in an impoverished rural community.

By applying a proprietary opaque coating to basic low-end commodity woven fabrics, Rockland manufactures the blackout window-covering fabrics that are found in almost every hotel and motel room in the U.S.

We export these products to over 90 countries including China and have received the president's E and E Star Awards.

As I discussed in my testimony last May 17th, Rockland has seen increasing competition in the U.S. market from Chinese producers of coated blackout fabric at decreasing prices.

The circumstances of this pricing and Chinese growth fit precisely into the trade representative's criteria for imposing increased tariffs.

Chinese companies pirate Rockland's intellectual property and they steal Rockland's innovations. Rockland is the inventor of and sole surviving U.S. manufacturer of coated blackout window-covering fabrics and the driving force in the industry for innovation.

The imposition of additional duties of 25 percent would be effective in eliminating China's acts, policies and practices relating to technology transfer, intellectual property theft and innovation covered in the investigation which are unreasonable or discriminatory and burden or restrict U.S. commerce with respect to the industry producing coated blackout fabrics.

The effectiveness of these duties on blackout fabric, however, would be nullified by the inclusion in the latest list of certain fabrics and chemicals that we use in our domestic production of blackout fabric.

In fact, the imposition of additional duties on the raw materials used by Rockland would exacerbate the injury inflicted by China's unfair practices and would cause economic and disproportionate - I am sorry, disproportionate economic harm to Rockland, a small business under SBA guidelines.

In the past, Rockland could buy 100 percent of its fabric from U.S. producers. Today, the fabrics upon which Rockland applies its coatings are insufficiently available in the U.S.

We have no choice but to import the fabrics that cannot be found in sufficient quantity here and two of the necessary chemicals that are produced only in China.

We purchase these raw materials from

Chinese producers and incur a duty of up to 15 percent. So Rockland pays high duties on the very same raw materials from the same Chinese suppliers that the Chinese use to make an end product that it sells in the U.S. currently duty free.

The proposed additional duty of 25 percent on these fabrics and chemicals exacerbates the economic harm already suffered by Rockland as a result of the structure of the Harmonized Tariff system.

In essence, the proposed duties will exaggerate the difference between the raw material costs paid by Rockland and the raw material costs incurred by its Chinese competitors.

While the imposition of 25 percent duties on blackout fabric may offset in part the impact of the duties on the raw materials, the proposed action places Rockland in a substantially worse position than existed prior to the remedy and will significantly compromise our ability to continue to compete in the U.S. and global markets.

The additional duties on the fabrics

and chemicals used by Rockland in the production of coated blackout fabric will force us to raise the price of our product or to sell at a loss, which is not survivable.

Changing the competitive landscape, the U.S. market will now be open to producers from New Zealand, Taiwan, Korea, India and other countries who will be able to sell on what will be an unlevel playing field in competition with Rockland to Rockland's U.S. customers duty free because they will not incur either the additional duties on the raw material fabrics and chemicals, most of which, like, Rockland -

CHAIR GRIMBALL: Please conclude.

MR. BERMAN: - they must source in China. One minute to finish, please.

CHAIR GRIMBALL: Please conclude in the next 10 seconds, please.

MR. BERMAN: I can finish? Thank you. So only Rockland gets hurt, not the - not the Chinese raw material producers, by the proposed tariff.

Make no mistake about it. Not only Rockland's business but its very existence imperiled by unfair Chinese trade practices and the harm will cascade down the U.S. supply chain to the detriment of the sole surviving U.S. weaving mill that makes a little bit of our raw material --

CHAIR GRIMBALL: Thank you, Mr. Berman. Thank you.

MS. BELLAMY: Our next witness is Charles Wellins of FlexiVan Leasing, Inc.

Mr. Wellins, you have five minutes.

MR. WELLINS: Good day, and thank you for the opportunity to testify today.

My name is Charlie Wellins and I am the president and chief operating officer of FlexiVan Leasing, Inc.

Prior to joining FlexiVan, I spent 26 years living and working in Hong Kong and China, primarily for Maersk Line, the largest ocean shipping company in the world.

FlexiVan has been a leading chassis

lessor in the United States since the inception of containerization in the early 1960s.

Today, we are one of the largest chassis providers in North America with a fleet of approximately 125,000 units. We employ more than 250 associates at 11 locations in the United States and at our facility in Toronto.

I am here today because the administration has proposed a 25 percent ad valorem on the intermodal chassis and their component parts produced in China.

In the little time that I have today, I would like to give the committee some perspective on the U.S. chassis leasing industry and how it has changed dramatically in the recent years.

FlexiVan used to lease roughly - used to lease to, roughly, 25 ocean carriers, accounting for approximately 85 percent of its revenue.

Due to competitive pressure in addition to building new chassis, FlexiVan and other chassis lessors engaged in extensive remanufacturing programs that extended the useful life of their chassis.

Those fleets are now often 14 to 17 years old and nearing the end of their useful life. Ocean carriers remain an important part of the customer base.

However, chassis lessors now have thousands of additional customers including motor carriers, beneficial cargo owners, private fleets, 3PLs and logistics companies.

These customers often require new chassis equipped with radial tires, LED lights, GPS tracking and airing systems.

All these new customers' requests for chassis routinely come with very short delivery schedules, requiring immediate manufacturing capacity, which is not sufficiently available for U.S. manufacturers - from U.S. manufacturers.

We expect that the new chassis demand will only accelerate in the coming years. Recently, the South Carolina and Georgia port authorities were granted permission by the Federal Maritime Commission to act in concert with the U.S.

anti-trust immunity to establish a new chassis pool in the southeast United States.

The new pool has issued a request for a proposal to replace the existing chassis fleet in the Southeast with new and refurbished units.

This includes a requirement for approximately 10,000 new chassis to be delivered over the next 18 months. U.S. manufacturers collectively cannot meet this requirement without even considering demand for new chassis from their existing and potential customer base.

Where are all these new chassis going to come from and who can deliver modern chassis with the lead times our customers demand?

We buy from Cheetah and other U.S. chassis manufacturers. However, the industry's demand is just too great. Lead times are too short. There are no chassis manufacturing facilities in certain key demand locations such as the United States' West coast.

U.S. chassis manufacturing industry cannot satisfy even one-third of the anticipated domestic demand.

Unfortunately, lead times for delivering of new chassis from U.S. manufacturers has been extended significantly. By way of example, in a recent FlexiVan purchase order this May we were informed that chassis line space would not be available until the end of 2018.

FlexiVan has lost business opportunities to new chassis lessors with newer fleets in the past year because we simply could not secure equipment in a timely manner to meet customer requirements.

FlexiVan and others in the chassis leasing business have no choice but to source a material amount of their equipment from China.

Therefore, if you put a 25 percent tariff on imported chassis from China, you will cause a significant disruption to the U.S. intermodal freight system.

Container chassis and shipping containers are the backbone of the intermodal freight system in the United States. U.S. exports, domestic shipments and, yes, imports all rely on this system.

The administration wisely removed intermodal shipping containers from the second tranche of tariffs imposed on China pursuant to the Section 301.

I would respectively submit to you that many of the same reasons justifying that determination apply equally to the container chassis.

I understand what the administration is trying to accomplish with China. However, in trying to address these issues we should not cause severe damage to our own economy.

In my opinion, that is exactly what you would do if you impose a 25 percent ad valorem tariff on intermodal chassis and their components.

This concludes my comments. Thank you for the opportunity to make this presentation to the committee. I'd be happy to answer any questions you may have.

MS. BELLAMY: Thank you.

Our next witness is Bennett Duval of Challenger Cable Sales.

Mr. Duval, you have five minutes.

MR. DUVAL: Thank you for the opportunity to testify before the Section 301 Committee panel in opposition to the imposition of an additional duty on external power supplies classified under subheading 8404.40.95.

My name is Bennett Duval. I am the vice president of Challenger Cable Sales, a small 32-year-old family-owned U.S. business started by my grandfather.

While Challenger is supportive of the administration's efforts to counter China's acts, policies and practices that are unreasonable or discriminatory to U.S. commerce, I am here to testify that the imposition of additional duties on external power supplies will inflict disproportionate harm on a small U.S. business and American consumers.

Challenger has built its reputation by developing and distributing high-quality external power supplies that are packaged with cable set top boxes, telecommunication devices, cable modems, and other consumer electronics.

Our power supplies are used with the set top boxes and internet services in many American homes. The proposed duties will affect the price of our power supplies, which will have a direct impact on the American consumer.

As you can imagine, producing these external power supplies is not cheap. The components are available from only limited sources.

Although the component parts that Challenger uses to produces its external power supplies are low technology, China is presently the primary source for these components.

For this reason, the most reasonable and efficient location to assemble the external power supplies is China.

Challenger has invested carefully but significantly in this production capacity. The proposed Section 301 duties on external power supplies would increase Challenger's costs as well as the cost to the American consumer.

These costs would be unavoidable. Challenger would either have to pay the additional duties upon the importation of power supplies or incur the additional costs associated with the relocation of the final assembly operations to a location outside of China.

Any relocation of our supply chain will incur the ongoing additional costs of the inefficiencies associated with the relocation.

Most importantly, neither solution will have an impact on the volume of trade with China. China is the primary global source of the components used to produce external power supplies.

By investing in the establishment of a Chinese facility for production of our external power supplies we are able to save on transportation and logistics costs. These savings benefit the American consumer.

Challenger may be forced to relocate the final assembly of its external power supplies in an effort to limit the impact of proposed duties on the amount that the American consumer would pay for our products.

The change in our supply chain, however, will barely impact China because we will still need to source the components from Chinese suppliers as these items are not sufficiently available outside of China.

Accordingly, a change to our supply chain will only serve as a partial mitigation of the harm inflicted by the imposition of the proposed tariffs.

New assemblers will need to be qualified at a great cost. We will incur additional costs as the new assemblers develop the expertise and efficiencies that we realize with our current assemblers.

The biggest additional cost, however, will be ongoing and inescapable. We will be forced to absorb the transportation and logistics costs associated with the shipment of components from China to another country for use in the assembly operation.

As I previously stated, China is the primary source of the components used in the production of external power supplies.

No other country has the ability to produce these components in sufficient quantity or quality to support our demand.

Additionally, the greatest proportion of the value of the external power supplies is associated with the components. Each external power supply originates in the country in which it is assembled. But the assembly operation is relatively unsophisticated and inexpensive.

Therefore, China will receive nearly the same volume of trade regardless of location of the final assembly operations. The only cost to China of our potential change to the supply chain is the loss of the unsophisticated and inexpensive final assembly operation.

The proposed additional duties serve merely to impose additional cost and inefficiencies in the development, production and distribution of external power supplies.

While this imposition of additional duties on external power supplies will raise costs on small U.S. businesses and on the American consumer, additional duties will not materially impact China's level of trade.

Moreover, the additional duties on external power supplies will do nothing to counter China's acts, policies and practices that may be unreasonable or discriminatory to U.S. commerce.

In short, the economic harm inflicted on U.S. small or medium-sized businesses and American consumers is disproportionate to any practical effort that the additional duties would have on obtaining the elimination of China's acts, policies and practices.

Challenger is supportive of the administration's efforts to ensure that trade with China is fair and reciprocal. As a small business, Challenger is concerned that China's acts, policies and practices are unreasonable and discriminatory to U.S. commerce.

The imposition of additional duties on

external power supplies, however, do nothing to counter China's unfair acts.

Rather, these duties will inflict disproportionate harm on U.S. small businesses and American consumers.

Thank you again for your time today. I'd be happy to respond to any questions.

MS. BELLAMY: Thank you.

Our next witness is Jimmy Heidenreich on behalf of Direct ChassisLink, Inc.

Mr. Heidenreich, you have five minutes.

MR. HEIDENREICH: Good afternoon. My name is James Heidenreich. I am the vice president and counsel of Direct ChassisLink, Inc., or DCLI.

I'd like to open today by thanking the members of the Section 301 Committee for the opportunity to testify today on behalf of my company.

From its headquarters in Charlotte, North Carolina, DCLI operates the largest combined fleet of marine and domestic-sized container chassis in the United States, totaling well over

210,000 chassis.

We also manage over 90,000 domestic containers on behalf of third parties through our wholly-owned digitization partner, REZ-1.

DCLI employs approximately 450 people, all in the United States, and other than some de minimis activities in Mexico and Canada that are directly linked to our U.S. customer base, all of our chassis provisioning business originates and occurs within the United States.

Chassis are classified for customs purposes under HTS subheading 8716.39. Their components include chassis parts as well as tires under 4011.20, 8708.99, and 8716.90, and steel wheels under 8708.70.

In my short time before the committee today, I would like to lay out four reasons why the administration should not impose new tariffs on chassis, chassis parts, chassis tires or chassis wheels produced in China.

First, chassis remain an integral part of the U.S. supply chain and regardless of the origin of the cargo they carry, whether originating within the United States or abroad, chassis makes the seamless transportation of goods from sea or rail to road and back possible.

They are a crucial but often unnoticed backbone of our economy. Without chassis in adequate numbers, the modern U.S. economy as we know it would slowly grind to a halt.

Second, while these assets are mostly made of steel and supplemental automotive components such as tires, breaks and lights and are long-lived, they take a beating.

Chassis providers are constantly having to refurbish their equipment. They also have a near constant need to replenish and grow their capacity including to meet the increasing number of containers that flow through U.S. ports and rail ramps each years.

DCLI alone has acquired over $140 million in new chassis manufactured in China in the past four years. Had these acquisitions been subject to a 25 percent tariff, the cost of those acquisitions would have added $35 million in expenses to our balance sheet.

Moreover, the harm done by a tariff cannot be limited to the transportation of goods made in China. It would also hit goods made in America that travel in a container on a chassis.

Third, while DCLI believes in supporting U.S. manufacturers for some of its chassis capacity and has ordered over $5 million in locally-produced chassis in the past two years, U.S. manufacturers simply lack the capacity to meet anywhere close to our entire chassis need, much less the needs of the entire chassis industry.

In fact, when DCLI reached out to one U.S.-based manufacturer in late 2017 about their filling any portion of our 2018 requirements, we were told they had no capacity, not for one single chassis.

Another told us that it had no capacity for the next six months. While tariffs could potentially incentivize some reallocation of manufacturing resources domestically, that reallocation is not guaranteed and it's doubtful that any such reallocation could occur fast enough to meet the nationwide demand for new chassis.

In short, the consequences of a supply-demand gap could have far-reaching consequences including shortages and dislocations of chassis that create congestion at ports and rail ramps, delays in the deliveries of goods and an overall drag on the country's economic throughput.

Fourth, the largest expense in operating a chassis fleet is maintenance and repair and the largest component of maintenance and repair is the cost of tires.

A significant portion of our fleet uses bias ply tube type tires, a type of tire that is not produced to OEM standards in the United States.

Therefore, we have no choice but to import these tires from other countries and often that country is China, with DCLI importing over 30,000 of these tires in 2017 alone.

In conclusion, the administration wisely chose to remove intermodal shipping containers from the second tranche of tariffs imposed on China pursuant to Section 301, and many of the reasons that justified that action apply equally to chassis and their components.

DCLI applauds the administration's attempt to confront China's unfair trade practices. However, such efforts should be carefully crafted and not cause disproportionate economic harm to U.S. interests.

Imposing tariffs on chassis would harm DCLI, other chassis providers and users, the U.S. economy and, ultimately, U.S. consumers, without any clear gain to outweigh those harms.

We therefore ask that chassis and their components be removed from the annex to USTR's July 17th, 2018 Federal Register notice.

Thank you, and I'd be happy to take any questions you may have.

MS. BELLAMY: Thank you.

Our next witness is John Mandelker of Kenroy Home.

Mr. Mandelker, you have five minutes.

MR. MANDELKER: Thank you.

On behalf of Kenroy Home, I am John Mandelker. I am the chairman of Kenroy Home.

The United States does not have a significant residential lighting manufacturing base. The manufacturing for this industry moved from the United States to Taiwan 35 years ago, and 20 years ago moved to China, and it now produces 95 percent of the products that are sold in the United States by U.S.-based companies with U.S. employees.

The less than 5 percent that is produced in the United States are low volume extremely high-priced products out of the price reach of most Americans.

The proposed tariffs would add 25 percent to the cost of the finished product, unlike a tariff on commodities that make up a small percent of a product's total cost.

For example, the 10 percent tariff on aluminum for a product that contains 10 percent of its cost in aluminum ends up being only a 1 percent increase. The 25 percent tariff would be - on our products would be passed on to the consumer in entirety.

Profits of Kenroy Home and other U.S. lighting companies are less than 25 percent. Absorbing these tariffs will force difficult choices and may well put many small and medium-sized suppliers out of business with potential default to their banks.

Kenroy's biggest threats are Chinese-based lighting companies that sell direct to retailers. The Chinese lighting companies don't have the cost of U.S. development, sales and marketing, and U.S. distribution centers.

So they can more easily absorb a 25 percent tariff. The tariffs will make it more difficult for U.S. companies to compete with China companies and will result in permanent job losses to China.

I am not sure how Kenroy is going to handle the immediate $1.75 million in tariff costs for the $3 million of product it currently has on the ocean and the $4 million of non-cancellable PAOs.

But so far, Kenroy Home has already suspended new product development as new products with less certain sales potential will be overburdened by these tariffs. This has resulted in curtailed hiring and has already forced selected employee cuts.

The tariffs, once enacted, will require Kenroy Home to make cuts of $5 million out of a $15 million budget.

Currently, payroll consists of 40 employees and 50 independent sales representatives. These total costs of $4.5 million will need to be slashed by over 50 percent.

This would mean laying off all 50 independent sales representatives, four inside company sales representatives, closing one warehouse with five employees, eliminating live customer service with six employees, laying off the rest of the development staff's five employees, and other back office employees - in essence, putting the company into hibernation until the tariffs are removed, and the damage will survive beyond the tariffs as rebuilding the organization will take years.

Currently, there are not sourcing alternatives or a viable U.S. strategy for Kenroy to serve its American consumers. Alternative countries lack the industry-specific infrastructure needed to supply the volume, the wide ranging components necessitated by lighting's broad diverse products.

Lighting products may contain wood, iron, steel, brass, copper, aluminum, poly resin, plastic, paper, fabric, glass, seashells and more.

Finding reliable, safe, affordable skilled lighting manufacturers in a new country is challenging but probably impossible due to the scale of manufacturing required.

Kenroy's sourcing efforts in India over the last five years accounts for less than 1 percent of its current sales.

The lighting industry is composed of

approximately 500 lighting manufacturers with 20 to 200 employees each. Similar to Kenroy Home, they design and engineer here in the U.S., which are the higher value, higher paid jobs.

But they source from third party China factories while performing all sales and support, customer service, marketing, logistics and distribution operations in the U.S.

U.S. retail employers of the over 20,000 independent retailers, typically fewer than 20 employees per company will also be impacted.

Lighting products are sold by small family-owned lighting showrooms, furniture stores and decorators. These retailers have less bargaining power and will receive the brunt of the price increases as a result of proposed tariffs.

As a result, these tariffs will unfairly penalize these retailers in competitiveness as the large retail chains will force their supply chains to absorb the tariffs.

These family businesses will lose demand and they will lose revenues as they lack other categories from which they can offset their losses.

Consumers will face higher prices as one consequence and the decline in the number of U.S. lighting manufacturers, coupled with cuts in development and innovation, will reduce consumer choice.

Retailers will end up buying less variety in order to fill containers to buy direct. The impact of these tariffs are real and immediate and we hope that your response will be as well as we implore you to intercede on behalf of the numerous individuals and families who will be unfairly affected.

Thank you for consideration of our position and we look forward to your granting a waiver to avoid the unintended consequences on hundreds of thousands of American workers and thousands of American businesses that these tariffs would harm.

MS. BELLAMY: Thank you.

Our next witness is John Montigny of

Knape & Vogt Manufacturing Company. You have five minutes.

MR. MONTIGNY: Thank you. My name is John Montigny, CEO of Knape & Vogt Manufacturing Company, and thank you for the opportunity to address the commission today.

I am here to advocate adding Chinese slide imports to the duty list. Current trade policy has inadvertently given our Chinese competitors a 42 percent unfair cost advantage.

Hard work or innovation alone cannot bridge a 42 percent gap. Adding the duty to slides would strongly support the goal of reducing the trade deficit with China and would counteract current unfair Chinese competition.

It would also close a loophole China is exploiting to drive Chinese steel into the U.S. market without paying the extra duty.

KV, as we call ourselves, is a 120-year-old manufacturing company that makes precision ball bearing slides and sliding systems.

KV employs almost 900 people in the

United States. We have a loyal longstanding workforce with 206 of our employees having over 20 years of seniority and 27 people over 40 years.

Almost 600 suppliers count on KV as a customer and KV, in turn, supplies critical products to over 3,000 customers.

KV has always been an important part of American manufacturing. In 1898, KV produced parts for the Wright Brothers as they pioneered the first manned flights.

In World War II, KV halted its normal product lines to support the war effort. Today, KV's products are vital components in the furniture, automotive, appliance and cabinet industries.

I am here today because the previous decision to impose import duties on raw steel but no corresponding duty on imported steel slides has created the single biggest risk to KV in its 120-year history.

We applaud the administration's goal of fair trade. Unfortunately, the unintended result of imposing import duties on raw steel but not on finished steel slides was to raise our cost while lowering the cost of our Chinese competition.

In other words, in my industry the policy had the opposite effect of what was intended. The current policy has instead given our Chinese competitors an insurmountable 42 percent cost advantage.

In March of 2016, the U.S. imposed a 266 percent anti-dumping duty on Chinese steel. This caused the U.S. steel price to increase 83 percent while Chinese steel declined.

Because no duty was imposed on finished goods, Chinese companies purchased this cheap steel and unfairly competed by selling slide products made of steel into the United States.

The Chinese have found a way to import steel and get around the duty. All they have to do is import a product that is made primarily of steel.

KV's Chinese competitors enjoy an

advantage on raw steel of 60 percent over the current U.S. steel price. Because steel makes up 70 percent of KV's cost, this translates to a 42 percent cost advantage.

At 42 percent, KV could not compete even if labor was free and we eliminated our entire overhead structure.

We have spent tens of millions of dollars over the past decade to upgrade our facilities and keep production here in the United States, supporting the families that count on KV for their livelihoods.

Even with these investments a 42 percent advantage on cost is not a problem that can be fixed with hard work or American ingenuity.

It can only be fixed at the policy level. But if the duty is imposed on imported slides by American workers, my American workers can have a fair chance to start winning again.

I am proud to say that KV has and is actively deploying a strategic vision to bring $15 million of additional production to its Grand

Rapids facility and the associated employment opportunities and investment in equipment.

KV has already allocated the capital to bring this strategic vision forward. However, those plans are now in jeopardy because of the high cost of raw steel without any corresponding protection against finished goods.

Adding the duty to Chinese slides will allow KV to bring more production to its Grand Rapids facility and thus have a positive and sustaining impact on the Michigan and U.S. economies.

Thank you for allowing me the opportunity to discuss how these policies have impacted KV and its almost 900 U.S.-based workforce.

My people are among the hardest working in the world. In a fair fight, I would put them up against anyone anywhere.

But the numbers simply do not work when Chinese competitors can circumvent steel duties with finished steel slides and enjoy a 42 percent cost advantage.

We must make the playing field fair or we could lose this industry to China, not because we cannot compete and we are not up to the task but because we have unintentionally given China an unfair and insurmountable advantage.

Thank you.

MS. BELLAMY: Thank you.

Our next witness is Chad Severson on behalf of InSinkErator. You have five minutes.

MR. SEVERSON: Thank you.

Good afternoon, Madam Chair and members of the Section 301 Subcommittee.

My name is Chad Severson and I am president of InSinkErator. Thank you for the opportunity to appear before you again on behalf of InSinkErator and our 1,342 employees in southeast Wisconsin who work at the first and now the only remaining U.S. manufacturer of food waste disposers.

InSinkErator is a great company with a great American pedigree. We are celebrating our

80-year anniversary of manufacturing food waste disposers here in the United States.

In fact, 100 percent of our food waste disposer production comes from two U.S. plants located in Wisconsin.

I am here today to request that food waste disposers remain on the list of products subject to tariffs per the Section 301 investigation.

Inclusion of these products will help protect my people. It will also protect the nearly $100 million in recent investments that we have made in U.S. manufacturing.

Our employees are dependent on a level playing field here in the United States. The U.S. market represents the vast majority of the total global demand while domestic demand in China is microscopic.

As a result, the Chinese industry is almost entirely export focused - actually, U.S. oriented. Unfairly traded Chinese imports have made recent and troubling inroads in the U.S.

market.

Over the last decade during which InSinkErator has been subjected to imbalanced tariffs and intellectual property infringement by Chinese competitors, surging disposer imports from China have resulted in a loss of hundreds of millions of dollars of revenue.

The Chinese disposer industry is driven by the policies that Section 301 is designed to address, specifically, rampant intellectual property theft.

In addition, the custom duties that disposers have are not reciprocal, which means that we pay high tariffs and have limited access to the China market while our Chinese competitors enjoy duty-free access to ours.

Specifically, our exports into China have historically been subject to a 20 percent tariff, currently reduced on a temporary basis, while exports from China to the United States face no tariff.

In addition, our exports have been

targeted by China for an additional 25 percent retaliation for Section 301.

All told, we could face a lockout rate of 45 percent.

The intellectual property story is equally troubling. Our Chinese competitors have manufactured and exported products that infringed our patents covering InSinkErator's state-of-the-art grind mechanisms, shredder plates and antimicrobial additives.

There have also been egregious violations of InSinkErator's trademarks and copyrights. Chinese third parties have copied entire portions of our website in an effort to sell knock-off disposers.

Chinese authorities have allowed the registration of trademarks in China that are identical or near identical to our InSinkErator logo.

U.S. authorities would have never dreamed of registering these ripoffs. Attachment 1, that you have a copy of, shows some of these examples.

Our prolonged efforts to shut down these infringers in China have tied up company resources that should have been reinvested in my employees and facilities in Wisconsin, not with Chinese lawyers.

I understand that the Chinese manufacturers have four arguments as to why disposers should be removed from the Section 301 list. Let me quickly address each argument, none of which have merit.

First, that disposers are not environmental goods subject to Chinese industrial programs. As noted in the Section 301 report, environmental goods have been designated a strategic emerging industry by the Chinese State Council.

Food waste makes up on average 20 percent of landfill volume and is the single largest waste and significant producer of greenhouse gas. Food disposers are environmental goods that keep food waste out of landfills.

Second, that moving the manufacturing of disposers to the United States is too expensive, we have been making disposers in the United States for 80 years and will continue to do so if the field is level.

In fact, I think disposer assembly by Anaheim or one of our other competitors could start in a matter of weeks in their existing plants if there was the will.

We also have the capacity to increase production to make up for fewer Chinese imports.

Third, that we will not sell disposers to other U.S. companies - we have manufactured disposers for prominent brands including Whirlpool, Kenmore, KitchenAid. We would welcome the opportunity to manufacture and work with other U.S. brands.

And the final argument, that imposing tariffs will create a monopoly harmful to consumers, U.S. consumers have many options to dispose of food waste.

In fact, 48 percent of U.S. households

don't even have a food waste disposer. We want the opportunity to compete for that 48 percent and also for the households that are replacing their current disposer.

We will keep our prices low to fight and win their business. All InSinkErator wants is a level playing field upon which to compete.

Thank you for your time. I am happy to answer any of your questions.

MS. BELLAMY: Thank you.

Our next witness is Steven Blust on behalf of Institute of International Container Lessors, Ltd.

You have five minutes.

MR. BLUST: Thank you.

Members of the Section 301 Committee, hello, and thank you for the opportunity to testify today.

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

Our members, including FlexiVan and DCLI, from whom you've heard today on this panel, own and lease chassis to U.S. motor carriers, vessel operators, and other organizations.

Today, I would like to focus my remarks on container chassis and their components, simply called chassis.

Chassis are classified for customs purposes under HTS 8716.39.0090. Their components include chassis parts, tires, and steel wheels.

For the following reasons, the members of the IICL respectfully urge the administration not to impose new tariffs on chassis produced in China.

First, a chassis is a steel undercarriage that is used to transport cargo containers by truck to and from ports, rail ramps and other shipping facilities.

They have rubber tires, brakes, mud flaps, DOT lights, and can be connected to a truck cab.

Many people talk about the impact containerized shipping has had on the modern economy. If containers are how freight moves seamlessly from one mode of transportation - sea, rail or road - to another, the chassis is the linchpin that makes the entire system work.

Without chassis in adequate numbers, the modern U.S. economy as we know it would slowly grind to a halt.

Second, the U.S. chassis fleet is worth 500,000 to 600,000 units with a growing number of them in need of upgrade or replacement.

Moreover, the demand for chassis is growing. A University of New Orleans white paper noted that the number of chassis in the United States has increased only 2.7 percent in the last four years compared to an 11 percent rise in the containers entering U.S. ports.

Unfortunately, domestic chassis manufacturers do not have the capacity to meet this growing demand.

According to available industry

figures, since 2006 U.S. manufacturers of chassis have produced fewer than 10,000 chassis annually, and while they may have some unused capacity that they can tap into if the market conditions were perfect, U.S. manufacturers do not have enough capacity to satisfy the apparent domestic consumption.

Thus, with all due respect, the last thing we need to be doing right now is thinking about a new tariff on chassis and their components.

Third, chassis producers are formidable competitors. They offer a good product at a good price. There is no denying that.

However, the Chinese are not flooding the U.S. market with reckless abandon, as some have suggested. In fact, U.S. imports of Chinese chassis declined by 2 percent from 2015 to 2017.

Further, the International Trade Commission decided in 2017 that chassis tires from China did not materially injure a domestic industry or threaten a domestic industry with material injury.

Fourth, chassis are decidedly low tech, especially the legacy bias ply tires used on many rigs. Aside from the development of radial tires, anti-lock brakes and LED lights, very little about the chassis has changed over the last 30 years.

Chassis are simply not relevant to U.S. leadership in high-tech manufacturing and are not remotely a focus of the Made in China 2025 program.

The materials and processes used to make them are well established and there is zero risk of IP infringement, forced technology transfer or theft of trade secrets, notwithstanding the unfounded claims of some in the U.S.

In conclusion, the administration wisely removed intermodal shipping containers from the second tranche of Section 301 tariffs imposed on China and many of the same reasons justifying that determination apply equally to chassis.

To be clear, the IICL supports the administration's effort to confront China's unfair acts and policies and practices with respect to intellectual property and cyber intrusions.

However, such actions should not cause disproportionate economic harm to U.S. interests.

Yet, that is precisely what would happen if a new tariff were placed on chassis produced in China. It would create a shortage of chassis, resulting in a disruption to the U.S. economy.

For these reasons, we ask that chassis and their components entering the U.S. be removed from the annex to the USTR's July 17th Federal Register notice.

Thank you, and I would be happy to answer any questions you may have.

MS. TRAVIS: My question is for Mr. Berman.

Mr. Berman, you testified that your company has no choice but to import raw materials, namely, your fabrics and chemicals, from outside of the United States.

I am wondering if you could elaborate on that a bit further. What percentage of your raw materials do you import from China, and also could you explain the difficulties involved in increasing the percentage sourced from the U.S. or from other third countries?

MR. BERMAN: There has been a tremendous decline in the U.S. weaving industry going back to the Reagan administration. It's focused today almost exclusively on high-end value added high-tech products.

The basics that we import are commodities. They have no intellectual property associated with them. As part of the Cold War back during the Reagan administration, the policy was adopted to support the growth of Third World textile industry as a hedge against the spread of communism.

It forced our industry here in the United States to focus on the higher, more complicated end. So China jumped right in there.

We actually started buying raw materials from China in 1974 right after Nixon got back and these were already goods that were not made in the U.S. anymore - not available anywhere else.

As a percentage, we are probably buying around 30 percent of our raw materials from China right now, another 30 percent from Pakistan.

We are going to be forced to buy more - tried to get away with an extra minute -what I was about to say was 25 years ago we had more than 25 U.S. mills that were supplying everything we needed.

Just this June, there were two left. Just this June the last - one of those shut down. There is some capacity in other countries besides China.

We have been to them all. We are importing from Turkey, Turkmenistan, Egypt, the United Arab Emirates. But there is - there are questions of quality, questions of supply chain reliability in a lot of these.

With our long experience in China we know that we can get what we need when we need it, after a very steep and expensive learning curve.

I don't know if that's - that I am

rambling a little bit. I don't know if I've answered your questions.

MS. TRAVIS: What about your chemicals? You - the countries you just listed, I am imagining, are where you're getting alternate sources of fabric. But what about chemicals?

MR. BERMAN: There are two chemicals that are only produced in China today and those are the two chemicals that are required to make our coating flame retardant to meet the fire codes in hotels and motels.

The other 14 ingredients that we - that go into our coating are all manufactured in the United States and we can get them there. They are manufactured in other places too, but that's a U.S. source for us.

These other two simply are not available anywhere but China.

MS. TRAVIS: Okay. Thank you.

CHAIR GRIMBALL: Those two chemicals that you mentioned were manufactured in China I assume that it's proprietary information because

I don't think you identified it.

MR. BERMAN: Not really. They are all MSDS. So -

CHAIR GRIMBALL: Okay. Well, if you could clarify in your follow-up to your written testimony exactly what those chemicals are -

MR. BERMAN: I will.

CHAIR GRIMBALL: - that would be good. Thank you.

MS. KNISLEY: Mr. Wellins, you testified about the lack of U.S. manufacturers' capacity for your products. Are there potential non-Chinese sources?

MR. WELLINS: Yeah. We actually use non-Chinese sources today. But I think the point is that with the trends that are happening and the demand on chassis to be modernized to meet the safety standards and to meet the growing demand of replenishing the aging fleets, there is simply not enough manufacturing line space in the U.S. or in Mexico and typically places that we also could source from.

So, you know, if history is any indication of the future then I think we are woefully short of manufacturing capacity to meet the demand.

MS. KNISLEY: Okay. And what were those other countries? You said Mexico and who else?

MR. WELLINS: Primarily Mexico, the U.S. and China are our sourcing locations.

MS. KNISLEY: Okay. Thank you.

CHAIR GRIMBALL: I have a follow-up question for all of the chassis people. I believe that's Mr. Wellins, Mr. Heidenreich and Mr. Blust.

There was some discussion that chassis had a fairly long useful life. I think 17 years or so and that chassis were leased.

I wonder what happens - or there was some sort of leasing arrangement for chassis. I am wondering what happens to the chassis at the end of their useful life.

Are any of those parts recycled? Can they be reused in the, you know, domestic manufacturing of new chassis? Please.

MR. HEIDENREICH: Sure. The useful life of the chassis varies a good bit. Fourteen to 17 years is the average age of the current fleet.

With proper maintenance, you can get 25 to 30 years out of them. But that varies with the applicability, the conditions that they are working in throughout the country. Obviously, weather and things like that impact the wear and tear on steel and those things.

When they are retired they are typically scrapped and the steel and the parts that can be reused are reused by not us but by third parties who -

CHAIR GRIMBALL: Not within the - not within the industry?

MR. HEIDENREICH: No, that's right. That's right.

CHAIR GRIMBALL: Does anyone else need to add?

Thank you.

MS. SMITH: Good afternoon, Mr. Duval.

My question is for you.

You testified that producing in China has allowed you to keep prices low for the American consumers. Do you have an estimate of the cost differential between Chinese product and products from the United States or another source?

MR. DUVAL: Thank you for the question.

Well, so I think the thing to do is to differentiate between our external power supplies and some of the other power supplies that might be produced here in the States.

So ours are very small power supplies that go in the back of a set top box. Also, we do iPhone-charging power supplies - power supplies something similar to that.

The problem is that the smaller power supplies aren't produced here in the United States, to my knowledge. I've looked.

I'd like to, but the reality is that especially for the amount that we produce it's just not available.

MS. SMITH: Okay. Thank you.

MS. HOLMAN: Good afternoon. My question is for Mr. Heidenreich.

You have testified that U.S. manufacturers cannot produce the quantity of products you require. Are these products available from third country sources in sufficient quantity to meet the needs of the U.S. market?

MR. HEIDENREICH: As Charlie mentioned, there is some capacity in Mexico as well. Really, China, the U.S. and Mexico are the main places that I am aware of where you source chassis today and there is not sufficient demand even in Mexico.

Most of the Mexican chassis I am aware of that get manufactured are being brought into the U.S. I am sure they have a domestic market as well.

But we are using that capacity already. I don't - we don't - we are not, at this point, aware of another place to source that additional capacity to meet a gap if we are no longer importing from China or as much from China.

MS. HOLMAN: Would there be any potential in increasing that capacity? Have you looked into that option?

MR. HEIDENREICH: We have looked at - you know, we have, obviously, approached U.S. manufacturers. We'd like to buy some in the U.S. and, as I think we have alluded to in a couple of different respects, in some cases we can't get U.S. manufacturers to deliver chassis in the places we want them.

You can ask for a quote on the West coast and get no pricing. We won't supply them - they won't supply them there.

So I am sure there is some incremental capacity they may be able to ramp up. But these parties also make other products - flat-bed trailers and other things that aren't specifically made to transport intermodal containers and the amount of that capacity is questionable at best, at least to meet everything that we need at this point and that the - essentially the U.S. economy needs at this point.

MS. HOLMAN: Thank you very much.

MR. SULEWSKI: Hi, this question is for Mr. Mandelker.

You had stated the view that tariffs on Chinese-made residential lighting products will have a negative impact on U.S. retailers.

Is your position based on the economic proposition that sales have to have some degree of price elasticity or are you basing it on some actual studies or your own experience?

MR. MANDELKER: Well, the internet changed everything and 20 years ago most lighting was sold in lighting showrooms.

Today, most lighting is sold in - on the internet or at home centers. The average price, say, for a floor lamp, the most popular price point is between about $100 and $150 retail.

That translates to - $100 retail would be about $40 at the manufacturer level. We are paying about $20. And, you know, because I think the American consumer, she is very savvy, and with the belief that the tariffs might be short term, lighting is something that can be easily deferred until next year.

Nobody needs a floor lamp or a table lamp today. They can wait a year or two.

CHAIR GRIMBALL: Just a follow-up question.

You mentioned that there was about a 1 percent production of lighting equipment in India. I am wondering if there is any production still in Taiwan and why the industry moved from Taiwan to China.

MR. MANDELKER: So we only have 1 percent of our products coming from India.

CHAIR GRIMBALL: Okay.

MR. MANDELKER: Taiwan is too expensive as well and a lot of those - most of those Taiwanese factory owners moved their factories to China as the industry migrated.

So there is no - not really capacity there. The biggest challenge with alternative sourcing is this is a product that we expect to be safe.

But it is electricity and if you recall back in the 1980s with the halogen lamps that caused fires, you know, it takes a while for us to certify a factory and if we are selling it to a home center, they are going to need to do further certifications.

So it could take us a year before we get the first product done.

MS. PSILLOS: This question is for Mr. Montigny.

What would the expected impact on U.S. consumers be if the slide imports from China were subject to tariffs and is there capacity in the domestic industry to supply the domestic demand?

And if you do have to increase capacity, does that - is that associated with any increase in the price that you sell to suppliers?

MR. MONTIGNY: Yes, thank you. So I'll take one at a time.

So the - so, first of all, I think if you look at the overall, you know, impact to the consumer it's - I call it zero to negligible and the way to maybe best think about it is in the average kitchen home if a refurb or a new kitchen is averaged around $20,000 but the actual content of slides that go into that kitchen for a ten draw kitchen would be probably $10 and for a really high-end kitchen it would be $50.

But that would assume that all of the tariff would be passed through and that's probably not the case, you know, because people would absorb some of it probably along the supply chain.

So, you know, and these are just people that are using the imported slides. The U.S. domestic production, obviously, wouldn't change.

But if you consider that, you know, all of that price wouldn't pass through. It would be even less of effect than that, that $10 or $50.

Then as far as production goes, if you look at just - in our case, we have about a 55 percent capacity utilization right now in our factory. So we are not running - no longer running a third shift.

So we could put on, you know, another shift in our factory and ramp up probably in a couple of weeks because, you know, again, both the equipment and the shifts are underutilized and there are other domestic manufacturers and also there are manufacturers that buy in other countries besides China, Mexico and other countries.

So I don't see any disruption to supply and I don't see any real issue as far as competition in the marketplace.

MS. PSILLOS: Thank you.

CHAIR GRIMBALL: This question is for Mr. Severson.

As you know, your competitor testified before this committee yesterday or perhaps the day before, and I am not quoting but I believe one of the arguments against tariffs was that those tariffs would further enable your company to continue to dominate the market.

Do you have a response to that?

MR. SEVERSON: Sure. Sure. Yeah.

You know, the first thing I'd point out is our company - actually our founder invented the disposer 91 years ago and we probably manufactured that in - for 80 years.

And while I did read the transcript of the testimony, I can tell you it's not accurate and we'd be glad to follow up in a written submission.

But I think it really comes down to the point I made earlier, which is 48 percent of U.S. households do not even have a disposer.

We, as like any business, want to grow and so we are out there being as competitive as we know how to be in those home centers and, frankly, that's a pretty competitive market as well as those folks compete as well.

And so we are really incentivized to keep this an affordable technology that, frankly, is good for the environment.

CHAIR GRIMBALL: You also mentioned that InSinkErator exports to China. Are you - does your company export fully assembled products or components?

MR. SEVERSON: Yeah, those are fully assembled products.

CHAIR GRIMBALL: Do you all sell components individually either in the U.S. market or abroad?

MR. SEVERSON: Just for accessories so around the installation of the disposer. But that China market is mainly disposers and then we also have a line of hot water product as well.

CHAIR GRIMBALL: Thank you.

And the final question is for Mr. Blust. You mentioned in your testimony that there was a decline in U.S. imports of chassis from 2015 to 2017.

MR. BLUST: Yes.

CHAIR GRIMBALL: Was that decline due to either increased production here in the United States or increased production elsewhere, or can it be attributed to something else?

I am wondering is it - I am wondering if that decline is an indicator of shifts in the industry.

MR. BLUST: It's possible. I haven't seen it in the - in the numbers because the U.S. production has been fairly consistent as well as the Mexican from some of the public sources that are out there.

So it probably was just the demand, the marketplace, and that the orders for that particular year just had that reduction going on.

So I don't think there is anything that drove it specifically. The U.S. production, there is a magazine that's out there called "Trailer/Body Builders".

They do an annual survey on trailers and chassis, and the numbers have been fairly consistent over the years from 2011 now to 2017.

The U.S. production was about the same, dropped a little bit in those years, and the Mexican production actually fell off in the last couple of years from - 2015, 2016 and 2017 fell off.

So the sense is that it was just a change in the marketplace that allowed or resulted in the reduced number of chassis coming in from China.

But they are not trying to push it to take other people out, as Mr. Wellins and Mr. Heidenreich indicated. It appears the U.S. manufacturers are fully employed these days making production.

There has been indications. On Wednesday, there was a panelist from Cheetah who indicated that they would be willing to grow a second shift.

But media reports that they've reported the maximum that they would do is go from 4,000 chassis a year to 10,000 chassis a year, and the marketplace is significantly higher than that.

So the amount of impact - positive impact I think it would have on supplying the demands out there is very limited. And the same thing with - from Mexico - there has been reports that they could double their production and go from 7,000 to 15,000.

But those two net increases between Cheetah and Hyundai would only satisfy the short-term demand of one particular port area which is 10,000 containers. So they - chassis - they wouldn't even make a dent in growth of the marketplace as well as the replacement of chassis.

CHAIR GRIMBALL: And how many chassis does China produce, if you have an idea, a ballpark? I know I have the 10,000 figure here.

MR. BLUST: In the -- I don't have -- I have, let's see, the ones assembled in the United States, recently they are running about 30,000 chassis a year and they may have some direct imports as well that would add on to it.

So making that gap to get up to 30,000 or 40,000 chassis plus expected growth from -- going from the 17,000 chassis to grow, which are already consumed, to add to the -- attack any part of the 30,000 that the Chinese are bringing in would be quite a leap.

CHAIR GRIMBALL: Thank you. Do any of the other chassis witnesses need to add anything to that? Feel free.

MR. HEIDENREICH: No, but we will have

some of these numbers in our written submissions for you, as well.

CHAIR GRIMBALL: Thank you. That's it.

MS. BELLAMY: That concludes this panel. Can Panel 40 please come forward?

(Pause.)

MS. BELLAMY: Will the room please come to order?

Our first witness on this panel is Elaine Bobbey of Evenflo Feeding. Ms. Bobbey, you have five minutes.

MS. BOBBEY: Good afternoon. My name is Elaine Bobbey and I'm the president and managing director of Evenflo Feeding. Thank you for the opportunity to provide testimony today in this important proceeding.

Evenflo Feeding, Inc., which is headquartered in Westchester, Ohio, was created in 2012 as a spinoff of the feeding-related business from Evenflo Company, Inc., and is now an entirely separate company. Evenflo is a worldwide leader in the development of infant feeding devices, which have been sold in the U.S. market for nearly 100 years.

I am appearing before you today to encourage to remove one tariff line, HTS 8413.20.0000, from the list of products proposed for an additional 25 percent duty on goods imported from China as part of the Administration's Section 301 action.

This tariff line covers a broad range of hand pumps, including manually operated breast pumps, which are Class I medical devices.
Before you make a final decision on the list of products, I'd like you to understand the impact this action could have on nursing mothers if these breast pumps are subject to a 25 percent duty.

Breast pumps provide an important option for nursing moms who want to continue to provide breast milk for their babies, whether they are going back to work or need more flexibility.

For babies who are born prematurely, breast pumps provide a lifeline to the best nutrition available. Evenflo Feeding has been a worldwide leader in producing quality pumps at a fair price. Manual breast pumps are less expensive than electric pumps and allow moms to pump in locations that do not have electricity.

We do not believe that imposing a 25 percent duty on breast pumps would be effective in motivating China to eliminate the unfair acts, policies, and practices identified in the Section 301 report and would cause disproportionate economic harm to U.S. interests, in particular by increasing the cost of the most medically and nutritionally beneficial form of feeding infants.

Breast pumps are not a priority for the Made in China 2025 program, which is focused on transforming China into an advanced manufacturing economy. In addition, we are not aware of any breast pumps that were the subject of China's effort to obtain foreign technology, nor has China prioritized developing its infant feeding products industry.

Finding alternative sources of supply

for these products to minimize the impact of the duty is not a viable option, especially in the short term. Starting production in the U.S. or another country would be a lengthy and expensive process in light of rigorous FDA requirements for the production of medical devices.

Developing an FDA-compliant manufacturing system can take more than two years and requires, among other things, registration of the facility, pre-market notification prior to selling or importing the good, compliance with regulations for quality assurance, facility inspections, and multiple rounds of audits.

Even if we could identify an FDA-approved production facility outside of China, the FDA process is product-, not facility-, specific. That means that we cannot contract for the manufacturing of our products by an FDA-approved facility unless they are also approved specifically for the production of our product. Thus, for the foreseeable future, there is no option for re-sourcing imports of our products.

Since we cannot relocate production to avoid the additional duty, that means someone will have to absorb the cost. If it is passed to the consumer, this will be a young mother trying to make ends meet. Either she won't be able to afford a manual breast pump, which is the most affordable option, or we may no longer be able to offer one in the U.S. market.

For these reasons, we strongly oppose an additional tariff, whether it is 10 or 25 percent, on this Class I medical device.

This concludes my statement and I am happy to respond to any questions you may have.

MS. BELLAMY: Thank you. Our next witness is Lynn Bragg of Glass Packaging Institute. Ms. Bragg, you have five minutes.

MS. BRAGG: Thank you. I'm Lynn Bragg. I'm president of the Glass Packaging Institute, otherwise known as GPI. I'm appearing here today on behalf of the North American glass container industry, which produces an array of consumer product packaging options for a variety of industries, including food and beverage and cosmetics.

Over 90 percent of the domestic glass container manufacturing industry's highly-skilled hourly workforce is organized under the United Steel Workers. As a majority of U.S. glass container plants are located in lower socio-economic areas of the country, the pay and benefits earned by these valued employees are much higher on average when compared to nearby jobs and careers.

GPI previously sought inclusion of certain glass container products through testimony and written comments in connection with USTR's initial trade action under this Section 301 investigation. For many of the same reasons articulated in that proceeding, GPI supports the listing of these products in the supplemental action that is the subject of this proceeding.

Further, GPI strongly supports additional duties in the amount of 25 percent, as is currently being contemplated by USTR at the direction of the President, as we had previously requested.

Chinese producers of these products have benefitted from an export-oriented industrial policy that has caused considerable harm to U.S. producers over time. For example, there is considerable evidence that Chinese glass container manufacturers have for decades been supported by various government subsidies.

Independent scholars have estimated that subsidies to the entire glass industry may have totaled $30 billion for the period between 2004 and 2008 alone.

These government subsidies have resulted in massive exports that target the United States. The United States is China's largest export market, by far, for glass container products and such exports have grown significantly in recent years. Exports from China to the United States in 2017 were more than four times as large as those to China's second largest export market, Indonesia.

These exports even may be understated as there is credible evidence that some imports from Canada may actually be of Chinese origin.

Chinese highly subsidized, export-oriented glass container exports, which have deliberately targeted the U.S. market, have had a substantial negative impact on U.S. producers.

Between 2005 and 2018, GPI member companies have reported 11 plant closures and, more recently, the closure of one mold fabrication facility and one machine repair facility and one additional plant reduction in force, resulting in estimated job losses of 3,975 workers attributed to competition from Chinese imports.

It is clear that if the Chinese government does not cease its support for its glass industry, there will be more plant closures and job losses. The glass industry urges the administration to negotiate an end to Chinese government targeting of the glass industry. Understanding that the Chinese government will not reach the same conclusion on its own, we strongly support the imposition of increased tariffs on glass container products imported from China, as proposed by USTR, to create the leverage needed to address these concerns.

Additionally, we believe an increased duty of 25 percent rather than 10 percent is necessary to counter the impact of China's unfair gains in the U.S. glass container market as a result of an industrial policy, and to provide needed support to domestic producers who have been hurt by Chinese government policies.

U.S. customers will not be significantly impacted by the tariff since there is latent capacity to produce in the United States.

On behalf of the North American glass container manufacturers, I'd like to thank you for allowing me to speak here today. I'm happy to answer any of your questions.

MS. BELLAMY: Our next witness is Richard R. Cundiff III of XALT Energy, LLC.

You have five minutes.

MR. CUNDIFF: Good afternoon. Thank you, Madam Chairman, and thanks to the rest of the

Section 301 Committee for the opportunity to discuss the deceptive, unreasonable, and unfair trade practices pertaining to the lithium ion battery sales by the Chinese government.

My name is Richard Cundiff and I am president and CEO of XALT Energy. XALT Energy is the largest heavy-duty, large format lithium ion cell and battery manufacturer in the United States. We are headquartered in Midland, Michigan, with a research and development center in Pontiac, Michigan.

We have the current annual capacity to manufacture over 700 megawatt hours of battery cells and battery modules. That equates to over 750 buses per year with over 400 employees at full capacity. This business was partially supported by $161 million grant by the U.S. Department of Energy as well as $142 million from the state of Michigan through the Michigan Economic Growth Authority Act. XALT Energy is also supported by more than $500 million of private sector investment.

Our business focuses on the innovation and manufacturing of cells, cell modules, and battery systems for the bus, marine, and stationary power markets.

As previously communicated with the Office of the U.S. Trade Representative and the U.S. Department of Commerce, XALT has had challenges both domestically and internationally with China due to their unfair trade practices and product dumping.

In 2016, XALT was poised to not only reach full plant capacity, but also expand our facility and employee base. We had a firm contract to sell 100 percent of our production to a Chinese-based electric bus manufacturer, the largest bus market in the world. XALT spent considerable resources developing a battery and obtaining approval for the required Chinese certifications of our cell for this order.

Despite XALT achieving two such certifications, QC/T and GB/T, the Chinese government abruptly changed their policy, effectively no longer allowing non-Chinese manufactured cells to be used for buses in China.

Due to no longer being able to sell into the China market, we were forced to severely curtail our cell production, resulting in a substantial reduction in our workforce, from 350 employees to about a hundred, and our plans to expand the plant were abandoned. Frankly, it was the most difficult day in my 35-year career.

To make matters worse, lithium ion battery cells from China continue to flood into the U.S. market. Specifically, BYD Co. Limited, a Chinese manufacturer of lithium ion battery cells, rechargeable batteries, and automobiles including buses is selling their products in the U.S. under its subsidiary, BYD Motors.

A substantial portion, in some cases up to 80 percent of the cost of the bus, is being paid for out of our federal tax dollars through U.S. Department of Transportation programs.

XALT Energy, a U.S. manufacturer of high-quality lithium ion cells and batteries, is not only precluded from selling our products in China, but a Chinese manufacturer of cells and batteries can and is selling their products in the U.S. with subsidies from both the Chinese and U.S. governments.

This requires immediate attention and we respectfully request this matter be addressed by including lithium ion cells for medium and heavy-duty transit buses in the final list of tariffs.

It is also our understanding that a large portion of the BYD bus, and certainly all of the cells and battery components, are manufactured in China.

With the cost of these components being such a substantial portion of the cost of a bus, it is anyone's guess how they are circumventing the "Buy America" requirements of buses purchased with federal dollars.

We have been told by a multiple of senators, congressmen and -women, and senior members of various federal agencies and departments that the domestic manufacturing of large format cells and battery systems is vital to our national security.

Unfortunately, with the unfair trade practices of China and the continued dumping of batteries in the U.S. by the Chinese company BYD, the viability of XALT and other related industry partners is in jeopardy.

For these reasons, we request and strongly support the inclusion of Harmonized Tariff Schedule subheading 8507.60.0010, lithium ion batteries of a kind used as the primary source of electrical power for electrically powered vehicles of subheading 8702.40.31 with only electric motor for propulsion designed for the transport of 16 or more vehicles in the final tariff list.

I again thank the 301 Committee for this opportunity and look forward to your questions.

MS. BELLAMY: Thank you. Our next witness is Ryan Ezell of Halliburton. You have five minutes.

MR. EZELL: Good afternoon. My name

is Dr. Ryan Ezell and I'm the global operations manager at Halliburton, one of the world's largest oil and gas services company, headquartered in Houston, Texas. We appreciate the opportunity to testify at this hearing today.

Halliburton supports the administrations' efforts to address the serious issues raised in Section 301 determination and to ensure the continuing competitiveness of U.S. companies.

We request, however, that these efforts take into account national security considerations. One of the pillars of the current U.S. national security strategy, as reflected in the paper the White House published in December 2017, is to promote American prosperity by embracing energy dominance.

The priority actions for accomplishing this objective include limiting burdens that encumber energy production and constrained economic growth, while encouraging maximum technological efficiency in fossil fuel exploitation to promote exports of our energy resources. Simply put, the products imported by Halliburton directly serve this pillar of U.S. national security strategy.

The U.S. oil and gas industry relies on imported natural barium sulfate, also known as barite, in its drilling and exploration activities. Barite is classified as subheadings 2511.10.10 and 2511.10.50, which are listed on the proposed list of subheadings and may be subject to an additional 25 percent duty.

We respectfully request that these subheadings be excluded from the proposed list. As described below, imposing additional duties on natural barium sulfate will actually strengthen China's barite industry and will compromise U.S. national security by undermining domestic oil and natural gas production.

Barite's chemical properties make it uniquely suited for use as a wetting agent in drilling fluids for oil and gas exploration. The American Petroleum Institute has established specifications for the use of barite in drilling.

Barite is ideal for this application because it's nontoxic, chemically and physically unreactive, nonmetallic and has low abrasiveness. Alternative materials for wetting agent application are cost-prohibitive and typically metallic in nature, which decreases drilling productivity. As a result, barite is by far the best option for the U.S. oil and gas industry from a technical and cost standpoint. Seventy-five percent of global barite is used in oil and gas exploration.

China will not suffer consequences as a result of the proposed duties on barite because China has the largest amount of barite reserves in the world, the majority of which are exported.

At the proposed 25 percent duty rate, it will be economically infeasible to import barite from China. Because U.S. barite mines are substantially depleted, the U.S. oil and gas industry will be driven to import barite from other countries.

The influx and demand of barite from other countries, which will have limited supply, will drive the price of barite higher. As a result, barite miners in China will benefit by selling to alternative markets at a significantly higher price, which will increase their profitability.

The costs associated with securing new sources of supply and increased price for product will inhibit oil and gas exploration and production in the United States.

Additionally, Halliburton has owned and operated barite mines in the United States for several decades. Based on our projections, it would take a duty increase of over 150 percent on all imported barite, regardless of country of origin, to render American barite deposits competitive for a majority of drilling and exploration activities in the United States.

In short, imposing an additional 25 percent duty on barite will harm the U.S. oil and gas industry, inhibit our ability to achieve energy independence, and benefit the Chinese mining industry without stimulating economic activity in the U.S.

For these reasons stated above, we urge you to align the Section 301 remedy with U.S. national security interests by not imposing an additional 25 percent duty on articles that facilitate U.S. energy independence.

Specifically, we respectfully request that the subheadings 2511.10.10 and 2511.10.50 covering natural barium sulfate be removed from List 3. We appreciate your consideration and I am available to answer any questions.

MS. BELLAMY: Thank you. Our next witness is Drew Murray of the Mgroup. Mr. Murray, you have five minutes.

MR. MURRAY: Good afternoon, and thank you all for the opportunity. My name is Drew Murray and I'm the owner and vice president of MGroup. MGroup and its subsidiaries are based in LaGrange, Georgia.

We supply furnishings and fixtures, primarily for the U.S. hospitality market. We supply hotels with items such as quartz, granite, and solid surface counter-tops, laboratory sinks, wood and metal vanity bases, tile, composite shower pans, glass shower doors, kitchen cabinets, guest room millwork, rugs, luxury tile, and various case goods such as desks, tables, couches, beds, and night stands. All these items and associated HTS codes are included in the proposed tariff list in the annex of the USTR 2018.0026.

MGroup has been trading with China for over 15 years and is aware of the abuses of unfair trade practices by China, particularly, transfer of intellectual property and protectionist policies. We have observed none of these actions within our scope of the products that we purchase from Chinese resources. We, therefore, request that, at the minimum, the items outlined in our Appendix A will be removed from the scope of implemented tariffs.

We support investigations and actions against these practices by China. However, we strongly oppose the use of additional tariffs to address the unfair trade practices by China as these will adversely affect our business, by directly putting the jobs of over 40 American employees in jeopardy and have a wide-ranging impact on the hotel and hospitality industry, including cost of construction and development, hotel operations and maintenance, and higher room rates passed along to the guests.

The extra cost to develop or renovate hotels will negatively impact several other industries, including construction, hotel staffing, and other supplementary services.

We anticipate the increases in cost as a direct result of these tariffs will substantially decrease demand for hotel development and result in substantial losses for MGroup employees and countless jobs throughout the hospitality and construction market.

These proposed tariffs will not prompt MGroup to source finished products or raw materials from the U.S. or other countries, due to the manufacturing infrastructure and personnel teams that we have developed in China, which typically produce products at a lower cost and higher quality than the like manufactured in the in U.S.

Due to the higher labor rates in the U.S., competitive products, in our experience, must use lower quality raw materials or other cost-cutting measures to compete. These products are not acceptable in the hospitality market due to high impact and wear on furnishings and fixtures.

To combat the prevalence of intellectual property transfer, MGroup only trades with private companies with zero state sponsorships and develops all designs and performs all engineering in the U.S.

None of the scopes outlined in our Appendix A relate to the national security or sensitive high-tech industries. We also employ a team of dedicated employees in China to oversee production, quality assurance, and safeguard proprietary information.

We formally request the following HTS subheadings be removed from the scope, and we have them listed there. Thank you, you all.

MS. BELLAMY: Thank you. Our next witness is Christine Robins of Char-Broil, LLC. You have five minutes.

MS. ROBINS: Good afternoon. My name is Christine Robins. I am the president and CEO of Char-Broil, LLC, a 70-year-old American company founded and still headquartered in Columbus, Georgia.

Char-Broil is one of the world's leading producers of outdoor gas grills. I am here to testify today in opposition to the Section 301 tariffs that the U.S. is considering imposing on gas grills, gas grill parts, and grilling accessories imported from China.

We recognize that trade with the United States needs to be on fair terms, which is why we appreciate the stated objectives of the Section 301 proceeding. We accept the determination that China is not trading fairly and the United States should respond.

However, Char-Broil's products are

inconsequential to the offenses cited in the Section 301 determination. Nevertheless, the harm these tariffs would do to Char-Broil and the millions of consumers who buy our products is highly significant.

We have not benefitted from or, for that matter, been harmed by China's acts, policies, and practices. We have not been required to turn over our grilling innovations to the Chinese government as a cost of doing business in China and have not seen our technology stolen by Chinese competitors.

Actually, we have successfully relied on the IP protection that is afforded by China. Char-Broil currently holds 21 patents issued in China and has 10 pending Chinese patent applications.

Imposing supplemental tariffs on gas grills in response to China's policies is therefore unwarranted. In fact, the tariff will serve only as a grill tax that ultimately hurts the American consumer. If the goal of these Section 301 tariffs is to incentivize China to change its industrial policies and IP practices, surely, a more targeted approach would achieve better results.

Like all companies, Char-Broil is an economic actor which tries to respond rationally to the marketplace and the economic environment. For nearly two decades, ever since China joined the WTO, imports from China have been subject to the MFN duty rate with predictability.

This made it rational for the vast majority of global grill production to coalesce in a single location, including Char-Broil. More than 90 percent of all gas grills sold in the United States are imported, and of those imports over 96 percent are manufactured in China.

As a result, there are few locations in the world where production could even theoretically be shifted to mitigate the impact of the proposed duties. Moreover, in a given year, the volume and value of gas grills that Char-Broil alone sources from China is almost five times larger than the total of all other gas grills imported into the United States from every country combined.

The point is, at present, no country, including the United States, has the capacity to produce gas grills on the scale that we or the market require.

To the extent the Section 301 action represents a fundamental shift in U.S. trade policy vis-a-vis China, we will need time to adjust.

The minimum lead time needed to shift sourcing to another country would be 30 to 36 months. The cost of doing so, which would essentially involve creating an industry from scratch, would run in the tens of millions of dollars.

Furthermore, it is simply not possible to bring production to the United States while preserving the price point that enables the mass market for safe and affordable gas grills. The increase in labor and raw material costs associated with producing in the United States would increase the price of the average gas grill 30 to 50 percent, creating a prohibitive price point for a significant number of American families.

There are tens of millions of hardworking middle and lower class Americans who value grilling with friends and family in their free time. This is an attainable recreational luxury that we at Char-Broil are proud to make possible for millions of Americans every year. Imposing a grill tax would only threaten this American outdoor lifestyle.

I also want to mention the severe hardship this proposed duty would have on the city of Columbus, Georgia. In addition to Char-Broil, another prominent manufacturer of outdoor grills is also based in Columbus. Despite being competitors, we stand united in opposition to these supplemental tariffs which could trigger substantial layoffs.

This administration has presided over two years of unprecedented growth with low inflation and low unemployment. To impose a grill tax on an iconic American pastime, especially at the start of tailgating season, would be an unfortunate and unforced fumble, both economically and politically. We urge you to reject the grill tax and exclude gas grills, gas grill parts from any Section 301 remedy.

Thank you, and I look forward to your questions.

MS. BELLAMY: Thank you. Our next witness is Randolph Taylor of Absecon Mills. Mr. Taylor, you have five minutes.

MR. TAYLOR: Thank you for this opportunity to represent my company, Absecon Mills, Incorporated, at this historic hearing. Absecon is one of America's leading contract upholstery manufacturers. We have been in business over 40 years.

Absecon Mills supports the administration's objectives of addressing and eliminating China's unfair intellectual property practices. However, imposing an additional tariff of 10 percent or even 25 percent will do little to deter their behavior.

When in the case of upholstery fabrics, there is a direct nexus to the technology transfer, intellectual property, and innovation basis for this in Section 301 action.

American upholstery fabric manufacturers are able to compete globally due to our innovation and design and performance. American upholstery manufacturers create thousands of new copyrighted patterns annually. We also use patented wet finishing techniques to enhance fabric performance.

Our substantial investments in intellectual property are repeatedly and systematically targeted by Chinese producers who cannot or will not make such investments and, rather, copy our designs and our other innovations for consumption in the Chinese market, primarily copying them and sending them back to the United States market.

Due to China's currency manipulation and other unfair trade practices, a mere 10 percent tariff will have a negligible effect. China's recent currency devaluation of 8 percent has already offset it. Even 25 percent does not address the massive unfair advantage that Chinese producers enjoy. Because Chinese companies who export, their exports sales, as I am sure you're aware, only tax at 3 percent. They have a 17 percent VAT tax. But if you're an exporter, then you only pay 3. So add 14 to 8, you get 22 percent they already get as an incentive when they sell into our market.

So I propose a 40 percent as the minimum necessary to address and eliminate China's unfair intellectual property practices.

While there are no specific tariff classifications for most upholstery fabric, proxies can be identified using weight, type of weave, and type of coating, all objective criteria already required by the customs when goods are entered. The relevant tariff classifications are listed in Annex A. In the interest of time, I will not read you the annex. It is in my electronic submission and this paper copy of my testimony.

In the case of upholstery fabric entered as cut parts of furniture in classifications 9403.90.60 and 9403.90.80, the case for a higher tariff is even stronger. Chinese procurers currently avoid the general duty rate on fabric by entering it as duty free parts. For those classifications, the additional 301 duty should be set at the same rate as the 301 duty on fabric, plus an amount equal to the average general rate of duty on upholstery fabrics.

Again, thank you for this opportunity to address you. I look forward to any questions.

MS. BELLAMY: Thank you.

MR. TAYLOR: You're welcome.

MS. BELLAMY: Our last witness on this panel is Ron Voigt of Diamond Innovations, Inc. Mr. Voigt, you have five minutes.

MR. VOIGT: Thank you for the opportunity to appear before the Section 301 Committee today. My name is Ron Voigt and I am the chief executive officer of Hyperion Materials and Technologies and its subsidiary, Diamond Innovations. I am here today to ask that you exclude industrial diamonds and diamond dust and powder from the scope of the Section 301 measures.

While we support the intent of the USTR's efforts, we make this request because we believe that imposing a tariff on industrial diamonds will punish U.S. businesses such as ours and will cause the loss of jobs and increase the trade deficit.

If a tariff is imposed on industrial diamonds, my company will be at a significant commercial disadvantage to our offshore competitors who would not have to bear the burden of the tariff. I may have to reduce our U.S. workforce by nearly 100 jobs in order to stay competitive.

Diamond Innovations is a proud U.S. manufacturer of hard and super-hard materials for metalworking and manufacturing process tools and engineered products. We are headquartered in Worthington, Ohio, and have manufacturing facilities in Ohio and Florida.

Our products are also used to produce diamond grinding wheels and other cutting tools that are used in a variety of manufacturing industries including the automotive, aerospace, oil and gas, solar, electronic, and other industrial component manufacturing areas.

Access to cost-competitive industrial-grade diamonds is critical to our business as they are one of the crucial feedstocks of our processes. We incorporate industrial diamond material into highly-engineered value-added products specifically designed to meet the demanding strength and precision requirements necessary to suit our customers' specifications.

Approximately 90 percent of this critical feedstock is produced in China as they are the only source that maintains the cost-effective capacity to supply the balance of the world. Excess capacity simply does not exist in the U.S. or elsewhere. We have chosen instead to focus our investment and energy on the processes and technology used to create the highly-engineered products that our trained and dedicated workforce produces for our customers.

It is imperative that Diamond Innovation have access to price-competitive industrial diamonds to continue to support our U.S.-based production, and the only economically viable source of these diamonds is through importation from China.

The proposed 25 percent tariff on industrial diamonds and diamond dust and powder would severely and negatively impact Diamond Innovations and the industry. Because these diamonds are only produced in China, there would be no way of avoiding paying the tariff, which would cause direct economic harm to us.

Diamond Innovations would be required to bear the impact of the 25 percent tariff while our foreign-based competition would not. As a result, these foreign-based competitors would gain an immediate and insurmountable commercial advantage.

It is important to note that Diamond Innovations competes on a global level, meaning the overwhelming majority of our products are exported. We export over $85 million worth of our products annually and our largest markets are Japan, Germany, South Korea, Austria, and Canada. We even have a growing market share in China itself. Our global market share would inevitably decrease as our customers would be incentivized to purchase from our foreign competitors and the U.S. trade deficit with these countries would be exacerbated, the opposite of the administration's goals.

To remain competitive, Diamond Innovations would have to shift production outside of the U.S. and reduce our U.S. workforce by as many as 100 employees.

Finally, downstream U.S. manufacturers would be hurt by the proposed tariff. We supply U.S. producers in a variety of industries with material that is used to produce tools. By raising our prices, they would be forced to raise their costs and their pricing, making it more expensive to manufacture in the United States. This is contrary to the Administration's goal of promoting

U.S. manufacturing jobs and would instead increase or cause the forcing of jobs moving outside or relocating outside of the United States.

In summary, it would not be possible of design a more effective way of destroying the health and competitiveness of my business in the U.S. than the imposition of tariffs on industrial diamonds and diamond dust and powder. These tariffs will not restore job growth in the United States but will instead destroy jobs in the U.S. and compel the movement of manufacturing outside of the country.

Therefore, we ask that the administration exclude industrial diamonds and diamond dust and powder from the list of products subject to duties. Thank you for the opportunity to testify and I look forward to your questions.

MS. BELLAMY: That concludes testimony for this panel.

MS. KNISLEY: Ms. Bobbey, in your statement, you state that shifting production from China to another foreign country would not only be costly and time consuming, but would also require a new FDA approval process. Can you tell us more about the approval process that would be needed to transfer your sources?

MS. BOBBEY: Yes. Thank you for your question. This is a really extensive and stringent process and it begins, first of all, with the facility that you want to produce in.

They have to have a certified clean room, as it's called, with certain climate controls and cleanliness controls to produce these pumps and package them in boxes that are sealed, and can only be sealed in the United States, per the regulations.

Also, the FDA requires a stringent quality management system that has to be written to certain specifications. There have to be processes that are carried out throughout the facility, not just in the clean room but elsewhere, and these processes all have to be documented and verified that they are documented during the manufacturing process.

So it takes quite a bit of time to make sure the facility has the proper quality system for your particular product, and there has to be actual verification on your product that this is occurring.

MS. TRAVIS: My question is for Ms. Bragg. You note in your testimony that there is latent capacity in the U.S. to produce the glass containers. How much time would it take to ramp up this capacity to meet domestic demand?

MS. BRAGG: I can't give you a specific time. But since we've just recently had closure of two plants, and perhaps another one very close on the way that has not yet been announced, it would probably take maybe three to six months to maybe reconfigure some of the production line for different types of products.

MS. TRAVIS: Thank you.

MS. PSILLOS: The next question is for Mr. Cundiff from XALT. A similar question on the domestic capacity. You said that XALT is the largest heavy-duty, large format lithium ion cell and battery manufacturer in the United States. If tariffs are put on these items, is there sufficient domestic supply to meet the demand? And if not, how long would it take to ramp up the domestic production? You did say that you have laid off people. How long would it take to get back to that point?

MR. CUNDIFF: Thank you for the question, and it's a very good one because it's something that we think about every day.

I will be the first person that walks out again if we have to lay off anybody else. My body will be the first one that leaves the facility, so it'll never happen again.

Luckily, we have extraordinarily large excess capacity today. Currently, on a good year, there is 300 buses, domestic buses that are electrified in the U.S. We have the capacity today for over 1,750. So there is certainly a lot of opportunity there for growth.

Additionally, our ability to add capacity is pretty quick. We were planning on adding capacity before China chose not to allow our cells to be imported. So we have the plans ready to actually double capacity, and within a year we could double capacity.

MS. PSILLOS: And is there higher demand for this product in China or in the U.S., since you said that so many of these buses are actually produced in China?

MR. CUNDIFF: Well,- China is a big bus market. A lot of people travel by bus in China. Fewer people travel by bus in the United States. There is a lot more people in China. So it really depends on the country.

But, as you know, there is a strong growth of electrification of transportation in the U.S. and many communities, including New York, Chicago, L.A., and many others are going to electrification of their fleets.

MS. PSILLOS: And also for some of the other, I think, smaller lithium ion batteries where people testified yesterday, there was some chemical inputs that are on the list. Are there any inputs to the batteries that you make that you import or is everything domestically sourced?

MR. CUNDIFF: No, we import a lot of raw materials because they are not available in the U.S. This is actually an example of a battery that we make or a cell that we make. We put these together to form a battery. So we import material from, frankly, all over the world to manufacture the cells.

MS. HOLMAN: Good afternoon. My question is for Mr. Ezell from Halliburton. What percentage of your barite needs are currently met by China? And do you import from any other countries?

And I'm assuming, given your testimony that the U.S. mines are currently depleted and that you would need 150 percent tariff to make them economically viable, is it safe to assume that that's not an option?

MR. EZELL: Yeah. Thank you for the question because it's essentially important for our topic here today, because traditionally

Halliburton has been a main mining entity for barite in the United States, and we've done it for multiple decades. And there has been a significant decrease in the amount of barite that we supply in the United States and that, one, it can't supply the U.S. land base and, number two, the quality of barite that we can mine now won't meet the API specifications to drill in the Gulf of Mexico.

So we have shifted our focus to how we buy outside the United States. So currently, right now, Halliburton, out of the barite we buy, 70 percent of it comes from China. Other sources that we have looked at are Turkey, Morocco and India. But combined, they can only make up about 22 percent of what we need.

Of the 70 percent that we buy internationally, more than 50 percent of it imports to the United States. And the issue that we also have is that, if we see this tariff applied on the Chinese barite, the other boutique areas that we buy from will raise prices to what China's going to -- what we are going to have to see with that.

So it's a significant impact on the U.S. oil and gas business, particularly if you look at the amount of footage we drill in the U.S. land unconventionals right now, particularly the shale plays.

So we have, you know, exhausted what we can do inside the United States. If you look at the amount of price increase that we would need to facilitate the capital input and the timing to mine the United States, we still couldn't get enough. There is not enough supply. We have just been substantially depleted or the quality there.

So that number is just kind of out there. But even at that price we still couldn't supply to the U.S. or Gulf of Mexico.

MS. HOLMAN: Thank you.

MS. SMITH: Good afternoon. My question is for Mr. Murray. You testified that the MGroup is not able to ship production to the United States or other countries. Can you tell us why it would not be possible for you to make the shift in production?

MR. MURRAY: Yeah. Thank you for the question. The hospitality market is a low-margin, high-commoditized business. We do have some local manufacturing and, frankly, we'd love to use it more often. But it just doesn't work out financially.

We are one of the leading suppliers of the products listed to the hospitality market, to the big companies such as Marriott, Hilton, Hyatt, and the developers, the management companies. The finances behind it just don't work. They just don't have the appetite to be able to use domestic manufacturing at the price points that they are currently at to make their deals pencil.

MS. SMITH: Following up, have you tried mentoring like a small business or someone who's in your field?

MR. MURRAY: Do you mind saying that again, ma'am?

MS. SMITH: Yes. Have you tried mentoring or something like with another company in the area that you need them to be up to speed?

MR. MURRAY: We certainly -- we have done that in the past and we have some partner businesses within our community in LaGrange, Georgia and throughout the country regionalized, depending on where the projects are.

But whether we mentor or not, the raw goods' prices, the cost of business domestically is just at a point that you can't -- people would rather not build the hotels, not develop the projects, than have the cost of construction go up significantly. And at this point, you know, just the threat of tariffs has caused a 10 percent increase in construction materials.

And so I can only imagine the ability of people to build and develop new projects if the tariffs actually go through.

MS. SMITH: Thank you.

MS. PSILLOS: Can I just add, it would be helpful if, in your post-hearing submission, for some of these products that are produced here in the United States such as kitchen cabinets, if there is a substantial price difference between what is produced here and what you do import from China. If you have any estimates of what that price difference is, I think that would be useful to add.

MR. MURRAY: Perfect. We will be happy to do it.

MR. SULEWSKI: Hello. This question is for Ms. Robins. You had testified that shifting your production from China to a foreign facility in another country or to the United States would be lengthy and costly. Can you elaborate as to what your company would need to undergo in order to shift production outside of China?

MS. ROBINS: Sure. Thank you for the question. Let me actually give you a little bit of context on the history. For 60 of the 70 years we have been in existence we were a domestic manufacturer. And given actions of the U.S. government, we followed the industry, frankly, to China about 12, 15 years ago.

And so we do have a lot of experience on, you know, what happens in these types of movements. And we did that in part because as we were facing a choice of either closing our business completely and closing an iconic American business, or retaining 300 jobs and allowing moving manufacturing to China. So we are familiar with what it takes to move over there.

In terms of -- I testified how long it would take. Couple things to keep in mind. I testified that there's 90 percent of the grills that come in that are sold in the United States are actually imported, and a large majority of those, over 96 percent, come from China. That tells you that there is a very established ecosystem in China.

Just a little bit of background on our development process and our supply chain for a minute. We engineer, design, develop in the United States and our office is in Columbus, Georgia. High-skilled labor, and we basically just execute the manufacturing in China.

But in China there is a very established supply base. We source hundreds of components that are located within 100 miles of our factories that are used in the manufacturing process, and that allows us to produce safe, durable, affordable grills for American consumers.

Keep in mind, more than 50 percent of the grills sold in the U.S. are below $199. There is not a lot of money in there to have cost inefficiencies in the system.

And in part what takes the time to move the manufacturing, based on our past experience, is a couple things: is scale. The whole industry has got to move to keep it cost effective and affordable. And the other thing, frankly, is safety.

We are dealing with fire and gas, literally. And at Char-Broil we do take consumer safety and the safety of our products very seriously. And to reestablish a well-tested, audited, stable manufacturing process that produces safe and reliable products for the masses is critically important to us. And doing that takes time and it takes planning.

MS. PSILLOS: I just have a follow-up question for Char-Broil as well. While in your testimony you stated that you have not experienced any IP infringement in China, are you aware of any Chinese IP infringement on any of your competitors that produce domestically here?

MS. ROBINS: Good question. I'm not, but I will tell that there is not a lot of IP. We value our innovation and so we do patent our innovation, and have for decades. But to the best of my knowledge, we don't know of any, you know, IP issues that have occurred in China.

Like I said, the industry is virtually there. There is nothing that's been stated that China desires to be the, you know, world innovator in gas grills at this point.

MS. PSILLOS: Okay. And then also you stated that one of the reasons that you're in China is most of the inputs that you do source to manufacture grills, you source all of those inputs from China. What are the main inputs or main products that you use?

MS. ROBINS: Components, you mean?

MS. PSILLOS: Yeah. Yeah, or even just materials that are used for grills.

MS. ROBINS: Oh, there's hundreds of them. I mean, our list of components that are purchased to go into the final assembly grills is hundreds. It's doors, knobs, castors, gas valve regulators, which are unique to the industry. It's a host of things.

MS. PSILLOS: And do you know what percentage steel would account for that?

MS. ROBINS: That I - they are purchased components on our part.

MS. PSILLOS: Okay. And then the next question is for Mr. Taylor. In your testimony you urge the committee to impose a 40 percent tariff on certain upholstery fabrics and textile parts of furniture. What do you expect are the likely downstream impacts on such a tariff and would this increase the price for consumers?

MR. TAYLOR: I'm here with an associate right now. I, last week, was crossing the street in Alexandria and got hit by a car that was going kind of fast and I have a real serious concussion. So, my world is a little foggy and I didn't quite get that whole question. Could I ask my associate come on up here and tell me exactly what the question was.

I apologize, but I need --

CHAIR GRIMBALL: Would you like to consult with your associate and then while you do that we will move on to Mr. Voigt? So if you could repeat the question --

MS. PSILLOS: Sure.

CHAIR GRIMBALL: -- and then we will give you an opportunity to --

MR. TAYLOR: Again, I can't quite hear. I'm sorry.

CHAIR GRIMBALL: Okay. Well, what we are going to do is repeat the question and give you some time to consult with your associate, and while you ---

MR. TAYLOR: I just want to be able to hear it. That's all. That's where my fog is at the moment. So I just --

CHAIR GRIMBALL: Just hearing? Okay. Do you want to just repeat it?

MS. PSILLOS: Does it help if I repeat it?

MR. TAYLOR: Yes, please.

MS. PSILLOS: Okay.

MR. TAYLOR: I'm sorry.

MS. PSILLOS: No, it's okay. So you've urged the committee to impose a 40 percent tariff on upholstery fabrics and the textile parts of furniture. Do you expect that there is likely downstream impacts on the tariff if a tariff was put in place and will prices increase for consumers?

MR. TAYLOR: What I would expect is downstream effect of this would be more rebuilding of the U.S. textile industry that got decimated between 2005 and 2010 when China was allowed to enter this marketplace.

Most of the people I know bringing in the discounted Chinese product know the price of American goods and they make a huge margin of profit, where the textile industry, if you look in a textile industry magazine, what's the average profit our industry makes is maybe 6 percent. The importers make 45 percent.

So, the importers will join the club and make less profit, you know, and the American manufacturing will come back stronger. I and others will employ more people and invest in new equipment.

MS. PSILLOS: Do you have an estimate of how long it would take to get up to that capacity for domestic demand?

MR. TAYLOR: I could say as quick as a year. It would have a dramatic effect.

MS. PSILLOS: Thank you.

MR. TAYLOR: You're welcome. Thank you. Sorry for my inability.

CHAIR GRIMBALL: Okay. The next question is for Mr. Voigt. Could you confirm that the industrial-grade diamonds or diamond dust, that that product is either a product of or a by-product of a lab-created diamond versus a naturally occurring diamond?

MR. VOIGT: Yes, that's correct. It's an industrial diamond. It's basically an industrial process that combines temperature and pressure to convert graphite into diamond. And that diamond has the properties of a natural diamond; not the look or the clarity, but has the properties that are then used in an industrial setting.

CHAIR GRIMBALL: So how would the type of industrial diamond you describe differ from, like, a lab-created diamond that might be used in jewelry, for example?

MR. VOIGT: Just, I mean, the clarity and the visual characteristics of a lab-created diamond I think would be the primary differences. I mean, I think the chemistry, the structure of the carbon in the diamond would be similar.

I mean, the issue is these industrial diamonds that we are talking about are created in numbers which are much larger than what would be created in a lab for a gem diamond. And they are engineered or they are put into engineered products that then go into either cutting tools or abrasives to perform some work.

So, in terms of physics and chemistry I suppose it's the same. But in terms of application and volume it's very different.

CHAIR GRIMBALL: So, in your view, if, let's say, lab-created diamonds were created in plenty of other countries, those diamonds themselves or by-products still would not be suitable for the type of products that you're --

MR. VOIGT: Yeah, absolutely. I mean, the cost to create a diamond of gem quality, which I think is what you're referring to, the cost to produce that and the scale associated with it is so much different than the, frankly, hundreds of millions of carats of industrial diamonds that are this feedstock that's produced in China.

So it's fundamentally very different in that regard. And there really isn't a source. No one has put in the capital and the capacity like the Chinese have to produce the numbers, the quantity, and the grades of industrial diamonds that we require.

There really isn't a practical solution either in a related technology or in any other areas around the world.

CHAIR GRIMBALL: All right. And, you know, admittedly I am having difficulty visualizing the type of product that your industrial diamond goes into. And so, because of that, it's difficult for me to understand the portion of your testimony where you indicated that there would be certain negative downstream effects.

So if you can help me understand exactly, you know, what type of end product incorporates your product, and then from there further elaborate on what those negative downstream effects might be.

MR. VOIGT: Absolutely. So, I mean, my colleague in front of me from Halliburton, I mean, Halliburton uses, essentially, diamond pieces on their drill bits. So there is a diamond cutter, which is essentially an industrial-grade diamond which has been processed and engineered into a piece which is then brazed onto a carbide drill bit that goes into one of their applications for oil and gas exploration.

So, the downstream effect, I mean, frankly, is that the price that Halliburton would bear in the market, or Baker Hughes or others, would go up.

One of our largest customer areas is in the automotive industry, and our industrial diamonds are processed into pieces that go into cutting tools that manufacture everything from engines to transmissions to chassis components.

So the downstream market effect would be for the price of the feedstock, the increase that we experienced, to be passed through the balance of the supply chain.

CHAIR GRIMBALL: Thank you.

If there are no other questions, we will be in recess until Monday morning at 9:30. Thank you.

(Whereupon, the above-entitled matter

went off the record at 6:02 p.m.)