Consumer Technology Association™

Testimony of Sage Chandler, Consumer Technology Association

Docket No. USTR 2018-0005 – Public Hearing on May 16, 2018, Panel 11

Thank you for the opportunity to appear before USTR today on this important issue. I am Sage Chandler; Vice President for International Trade at the Consumer Technology Association ("CTA"). CTA remains opposed to the use of tariffs to address imbalance in the U.S.-China trade relationship because of the high likelihood of short- and long-term negative consequences to our own economy and to our member companies.

I. Background on CTA

CTA represents more than 2,200 companies from every facet of the consumer technology industry, including manufacturers, distributors, developers, retailers, and integrators. 80% of our members are start-ups, small and mid-sized companies as defined by the Small Business Administration.

II. Impact of Tariffs on CTA Members and U.S. Consumers

The U.S.'s overall trading relationship with China significantly impacts CTA and its members. Our companies rely on the global supply chain—including China—to compete and sell. CTA members identified 193 HTS codes on the Administration's list for which a 25% tariff would cause harm.

4 out of 5 of our small company respondents noted that they would not be able to switch sourcing from China to another country at all, or at least without costly disruption to their business. Moreover, the majority of sourcing shifts would not be to the United States.

Some of our members, particularly innovative start-ups, expressed concern that the proposed tariffs put them at a disadvantage relative to their competitors in other nations who can continue importing critical components from China at a fraction of the cost. Our member company Local Motors, a veteran-owned small business based in San Francisco, is particularly concerned about this impact. Local Motors is a ground mobility company which produces innovative vehicles locally in a network of micro-factories. They are currently working with DARPA on future military vehicles. Local Motors prefers to use American products and supply networks; however, certain commodities, components, and systems cannot be sourced in the United States. Local Motors is particularly concerned that its two main competitors, both French companies, would not be subject to the additional costs of tariffs and could undercut Local Motors in the market. The tariffs could increase Local Motors' bill of materials costs by 5 to 12-percent, slowing production, reducing their ability to grow market share, and impacting U.S. hiring decisions.

Start-up companies also fear that the tariffs and associated market uncertainty could keep their products from going to market altogether. For example, our member company HiberSense believes that the proposed tariffs could delay or end their plans to bring manufacturing of an item currently imported from China to the U.S. HiberSense is a two year old Pittsburgh-based startup building innovative solutions for whole-home temperature control. HiberSense has experienced strong demand and researches, designs, engineers, and manufactures its core products in

Pennsylvania. However, HiberSense currently relies on a simple control switch for its thermostat, a product imported from China under HTS code 90321000. This product is on the Administration's proposed tariff list. While it represents a fraction of the whole system's value, a 25% duty on this product would place significant burden on this small company. If shifting their thermostat supplier becomes required, prior to their planned growth and readiness to produce this item in the U.S., the launch of their business could be delayed, having a dire impact on the company and its ability to deliver on time, on budget.

Consumers and U.S. jobs would bear the brunt of tariffs, too. Studies commissioned by CTA and the National Retail Federation found for example, that U.S. consumer prices for TVs imported from China would increase by 23.0 percent and that the proposed tariffs, coupled with retaliation, would cost jobs in every state in the U.S. Four jobs lost for every job gained.

III. Efficacy of the Tariffs to Obtain Elimination of China's Acts, Policies, and Practices

A better approach is first and foremost to promote and encourage innovation here in the United States. Appropriate laws and regulations (as well as de-regulation) will help U.S. industries widen their comparative advantage in technological innovation.

Existing enforcement programs and policy tools, such as Section 337 and the Foreign Commercial Service, can be better promoted by the Administration so that companies understand how they can pursue help.

CTA also firmly believes in diplomacy. The Administration should work with other nations in forums such as the World Trade Organization dispute settlement or via trade agreements to pressure China to update its IP laws and policies.

IV. Conclusion

In conclusion, CTA categorically opposes the imposition of tariffs which will cause disproportionate harm to U.S. businesses and consumers. The tariffs will be ineffective against China's policies and will cause disproportionate harm to U.S. businesses and consumers. Other policy tools can achieve USTR's objectives without risking the economic future of American companies and workers.

Thank you for the opportunity to testify. I look forward to your questions.