Statement of the

National Retail Federation

submitted to the

United States Trade Representative

for its hearing on

Section 301: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation

Docket USTR-2018-0005

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David French
Senior Vice President,
Government Relations

On behalf of:

National Retail Federation
1101 New York Avenue, Northwest
Suite 1200
Washington, D.C. 20005
(202) 783–7971
www.nrf.com

Good morning Ambassador Lighthizer and members of the Section 301 Committee. My name is David French and I'm the Senior Vice President for Government Relations for the National Retail Federation. NRF and its members appreciate the opportunity to provide our views regarding the proposed twenty five percent tariffs to be applied to selected products in response to USTR's Section 301 investigation evaluating China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation.

NRF is the world's largest retail trade association, representing discount and department stores, home goods and specialty stores, Main Street merchants, grocers, wholesalers, chain restaurants and Internet retailers from the United States and more than 45 countries. Retail is the nation's largest private sector employer, supporting one in four U.S. jobs – 42 million working Americans. Contributing $2.6 trillion to annual GDP, retail is a daily barometer for the nation's economy.

NRF joins the U.S. business community broadly in support of the USTR's conclusion that China maintains acts, policies and practices that infringe on U.S. intellectual property rights, and also that China requires or pressures U.S. companies seeking to maintain operations in China to transfer innovative technologies and intellectual property to Chinese companies, among other related practices. NRF's members fear that, however, if ultimately imposed, tariffs meant to incentivize China to change these practices would instead be a bludgeon not to Chinese companies and policymakers but to U.S. companies, workers and consumers instead.

China's Unfair Trade Practices

The issues identified by USTR have been irritants to U.S. and, indeed, global companies for decades. Unfortunately, past promises by China to change many of these practices have been unfulfilled. The frustration with inaction is understandable. As the Administration is aware, however; tariffs are hidden, regressive taxes that U.S. businesses and consumers ultimately pay, in the form of higher product prices.

Tariffs and Consumer Goods

From the outset of the Section 301 process, NRF's members have been extremely concerned about what products the administration would target for proposed tariffs against China. Many retail companies feared that consumer products including apparel and footwear would be on the list. While we appreciate that these products are not on the current proposed list that is subject to this hearing, we remain concerned that a potential escalation of tariffs and a potential trade war will eventually include these products. We strongly oppose any efforts to include or add consumer products to the list of products subject to additional tariffs.

Even though the Administration went to great lengths to limit the consumer impacts of the proposed list of products which we are focused on today a number of consumer products remain on the list that could be subject to the twenty-five percent tariff. They include televisions, monitors, mini refrigerators, tools, feeders and many other products that retailers sell. I have attached a copy of a list of HTS numbers that NRF members are concerned with to my testimony.

Attached to my written testimony is a copy of a joint study[1] released by NRF and the Consumer Technology Association that looks at the impact of the tariffs on some of these consumer products. In each instance, the study finds that prices will increase for consumers. For example, TVs that are imported from China are different than what is imported from other countries. The proposed tariffs would increase prices on TVs from China by 23 percent and increase prices for all TVs by four percent.

The tariffs will also hurt consumers when workers lose jobs. A second NRF sponsored study[2] of the broader impacts of the tariffs, coupled with certain Chinese retaliation already announced, finds that the tariffs would reduce U.S. gross domestic product by nearly $3 billion and destroy 134,000 American jobs annually. Reducing U.S. employment certainly cannot be the goal of the Administration in dealing with China's trade practices.

Prices will rise, and the economy will suffer because, in part, today's global supply chains are extremely complex. Retailers cannot quickly change suppliers to find alternate sources for goods impacted by the proposed tariffs. Retailers make their sourcing decisions anywhere from six to nine to twelve months in advance, depending on the product. Moreover, it can take years to develop new supply chains that satisfy retailer requirements for volume, reliability, regulatory compliance and vendor codes of conduct.

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[1] Estimated Impacts of Proposed Tariffs on Imports from China: Televisions, Monitors, Batteries and Printer Cartridges. Released April 11, 2018 and Updated May 7, 2018. Prepared by The Trade Partnership Worldwide LLC

[2] Tariffs on Imports from China: The Estimated Impacts on the U.S. Economy. Released May 1, 2018. Prepared by The Trade Partnership Worldwide LLC

Our members are now in the final stages of making purchasing decisions for the all-important holiday shopping season. Back-to-school merchandise will be arriving at U.S. ports in the next couple of weeks and holiday merchandise – already on order in most/many instances -- will start to arrive at the end of the summer. The sudden imposition of tariffs on any of these goods will likely be passed along to U.S. consumers.

Here's what one NRF retail member told us:

These complex supply chains can take years to establish, and in some instances rely on suppliers who bring unique capabilities that cannot be replaced. Even in those instances where sufficient alternative suppliers may exist, supply chains cannot be shifted to different countries or facilities without compromising contracts, compliance, quality and value for our consumer. We typically work with our suppliers a year or more in advance and write purchase orders anywhere from six to nine months in advance. Applying tariffs on imports from China will certainly disrupt those supply chains. Moreover, if we have to try to shift production to different countries in concert with other manufactures, we will face capacity constraints and from our initial research prices that are at least 10% to 30% higher than what we currently pay. This will no doubt contribute to inflation for our customer many of which have limited or fixed income.

So, the retail supply chain cannot just turn on a dime.

Alternate strategies

Instead of tariffs, we urge the Administration to focus the strategy on China on concrete initiatives to address the underlying barriers and distortions. The meeting in Beijing led by Ambassador Lighthizer and Secretary Mnuchin certainly is a good first step. We strongly believe the ongoing dialogue will be critical to avoid any kind of escalation of tariffs and a trade war.

We encourage the Administration to develop a comprehensive strategy in close consultation with the U.S. business community, including retailers, to effectively address the longstanding trade policy issues in China. This strategy must include clearly defined objectives, direct negotiating mechanisms with the Chinese, targeted deliverables, and deadlines with measurable results. This policy must be clearly communicated with stakeholders, and must ensure mechanisms to hold China accountable for achieving the results. This must include a concrete list of binding commitments and actions that China can and should take.

As another tool to pressure China by making it easier for companies to seek out alternative supply chains, we also recommend that you work with Congress to expand the scope of products eligible for benefits under the Generalized System of Preferences (GSP). China is not a GSP beneficiary. Expanding the products that get GSP eligibility to include apparel and footwear, in particular, would make it cost-effective for U.S. companies to undertake the investments needed to divert sourcing of these goods from China to GSP-eligible countries. The Administration achieves two goals: exertion of effective pressure on China to change its IPR and other practices, and a decrease in the U.S.-China trade deficit.

In addition, the U.S. should work in coordination with our like-minded trading partners to address China's trade practices through all available mechanisms, including coordinated strategies in bilateral and multilateral forums with China, joint enforcement actions through the WTO and other mechanisms.

Conclusion

We again want to thank the Administration for identifying the ongoing unfair trade practices in China that hurt U.S. companies and their workers. We think there are more suitable ways to address these issues than through tariffs which will ultimately hurt U.S. workers and consumers.

National Retail Federation Submission

HTS Numbers of Concern on the Proposed Tariff List

HTS Code	Product Description
30061001	Sterile surgical catgut, suture materials, tissue adhesives for wound closure, laminaria, laminaria tents, and absorbable hemostatics
40091200	Tubes, pipes and hoses of vulcanized rubber other than hard rubber, not reinforced or combined w/other materials, with fittings
40091200	Tubes, pipes and hoses of vlucanized rubber other than hard rubber, not reinforced
40169915	Caps, lids, seals, stoppers and other closures, of noncellular vulcanized rubber other than hard rubber
76051900	Aluminum (a/than alloy), wire, with a maximum cross-sectional dimension of 7 mm or less
76052900	Aluminum alloy, wire, with a maximum cross-sectional dimension of 7 mm or less
84201090	Calendering or other rolling machines, other than for metals or glass, nesi
84136000	Rotary positive displacement pumps for liquids, not fitted with a measuring device, nesi
84137020	Centrifugal pumps for liquids, not fitted with a measuring device, nesi
84138100	Pumps for liquids, not fitted with a measuring device, nesi
84149090	Parts of air or vacuum pumps and ventilating or recycling hoods
84186901	Refrigerating or freezing equipment nesi
84209990	Parts of calendaring or other rolling machines, other than for metal or glass
84211200	Centrifugal clothes dryers
84211900	Centrifuges, other than cream separators or clothes dryers
84212100	Machinery and apparatus for filtering or purifying water
84213980	Filtering or purifying machinery and apparatus for gases, other than intake air filters for internal combustion engines or catalytic convo
84219900	Parts for filtering or purifying machinery or apparatus for liquids or gases
84221100	Dishwashing machines of the household type
84223091	Machinery for filling, closing, sealing, capsuling or labeling bottles, cans, boxes or other containers; machinery for aerating beverages; nesoi
84241000	Fire Extinguishers, whether or not charged
84249010	Parts of simple piston pump sprays and powder bellows
84253901	Winches nesi, and capstans, not powered by electric motor
84253901	Winches nesi, and capstans, not powered by electric motor
84271040	Self-propelled works trucks powered by an electric motor, rider type forklift trucks

84271080	Self-propelled works trucks powered by an electric motor, fitted with lifting and handling equipment, nesi
84272040	Self-propelled works trucks not powered by an electric motor, rider type forklift trucks
84272080	Self-propelled works trucks not powered by an electric motor, fitted with lifting and handling equipment, nesi
84302000	Snowplows and snowblowers
84311000	Parts suitable for use solely or principally with the machinery of heading 8425
84321000	Plows for soil preparation or cultivation
84322100	Disc harrows for soil preparation or cultivation
84328000	Agricultural, horticultural or forestry machinery for soil preparation or cultivation, nesi; lawn or sports ground rollers
84329000	Parts of agricultural, horticultural or forestry machinery for soil preparation or cultivation; parts of lawn or sports ground rollers
84369900	Parts for agricultural, horticultural, forestry or bee-keeping machinery, nesi
84419000	Parts for machinery used in making paper pulp, paper or paperboard, including cutting machines
84439925	Parts and accessories of printers, nesoi
84661001	Tool holders and self-opening dieheads for use solely or principally with machines of headings 8456 to 8465, nesoi
84671150	Tools for working in the hand, pneumatic, rotary type, other than suitable for metal working
84671910	Tools for working in the hand, pneumatic, other than rotary type, suitable for metal working
84679101	Parts of chainsaws
84681000	Hand-held blow torches
84705000	Cash Registers
84716080	Optical scanners and magnetic ink recognition devices not entered with the rest of a ADP system
84717060	ADP storage units other than magnetic disk, not in cabinets for placing on a table, etc., not entered with the rest of a system
84795000	Industrial robots, not elsewhere specified or included
84811000	Pressure-reducing valves for pipes, boiler shells, tanks, vats or the like
84812000	Valves for oleohydraulic or pneumatic transmissions
84813090	Check valves other than of copper or iron or steel for pipes, boiler shells, tanks, vat, or the like
85021100	Electric generating sets with compression-ignition internal-combustion piston engines, of an output not exceeding 75 kVA
85051910	Flexible permanent magnets, other than of metal

85059040	Electromagnetic or permanent magnet work holders and parts thereof
85065000	Lithium primary cells and primary batteries
85073080	Nickel-cadmium storage batteries, other than of a kind used as the primary source of power for electric vehicles
85151100	Electric soldering irons and guns
85152100	Electric machines and apparatus for resistance welding of metal, fully or partly automatic
85152900	Electric machines and apparatus for resistance welding of metal, other than fully or partly automatic
85153900	Electric machines and apparatus for arc (including plasma arc) welding of metals, other than fully or partly automatic
85232910	Unrecorded magnetic media
85234950	Recorded optical media, nesoi
85255070	Transmission apparatus for radiobroadcasting
85256010	Transceivers
85269250	Radio remote control apparatus other than for video game consoles
85279915	Radio receivers, NESOI
85285925	Color video monitors w/flat panel screen, video display diagonal n/ov 34029 em, not incorporate VCR or player
85287110	Reception apparatus for television, not designed to incorporate a video display or screen, incorporating video recording or reproducing appa
85287264	Color television reception apparatus w/flat panel screen, video display diagonal over 34.29 em, incorporating a VCR or player
85361000	Fuses, for a voltage not exceeding 1,000 V
85361000	Fuses, for voltage not exceeding 1,000 V
85365090	Switches nesoi, for switching or making connections to or in electrical circuits, for a voltage not exceeding 1,000 V
85369040	Electrical terminals, electrical splicers and electrical couplings, wafer probers, for a voltage not exceeding 1,000 V
85369040	Electrical terminals, electrical splicers and couplings, wafer probers, voltage not exceeding 1,000 V
85369060	Battery clamps used in motor vehicles of headings 8702, 8703, 8704, or 8711
85392930	Electrical filament lamps nesi, designed for a voltage not exceeding 100 V, excluding ultraviolet and infrared lamps
85414020	Light-emitting diodes (LED's)
85443000	Insulated ignition wiring sets and other wiring sets of a kind used in vehicles, aircraft or ships

85444990	Insulated electric conductors nesi, not of copper, for a voltage not exceeding 1,000 V, not fitted with connectors
85446020	Insulated electric conductors nesi, for a voltage exceeding 1,000 V, fitted with connectors
85447000	Optical fiber cables made up of individually sheathed fibers
87031050	Golf carts and similar motor vehicles
87112000	Motorcycles (incl. mopeds) and cycles, fitted w/recip. internal-combustion piston engine w/capacity o/50 but n/o 250 cc
87113000	Motorcycles (incl. mopeds) and cycles, fitted w/recip. internal-combustion piston engine w/capacity o/250 but n/o 500 cc
89079000	Floating structures nesoi (for example, rafts, other than inflatable rafts, tanks, cofferdams, landing stages, buoys and beacons)
90132000	Lasers, other than laser diodes
90158080	Surveying, hydrographic, oceanographic, hydrological, or geophysical instruments and appliances, nonoptical
90183900	Catheters, cannulae and the like nesi, used in medical, surgical, dental or veterinary sciences, and parts and accessories thereof
90258035	Hygrometers and psychrometers, non-electrical, non-recording
90258050	Combinations of thermometers, barometers, and similar temperature and atmosphere measuring and recording instruments, non-electrical
90262080	Instruments and apparatus, other than electrical, for measuring or checking the pressure of liquids or gases
90262080	Instruments and apparatus, other than electrical, for measuring or checking the pressure of liquids or gases
90303338	Other instruments and apparatus, nesi, for measuring or checking electrical voltage, current, resistance or power, without a recording device
90314990	Other optical measuring or checking instruments, appliances and machines, nesoi
90318080	Measuring and checking instruments, appliances and machines, nesoi
90321000	Automatic thermostats
93059960	Parts and accessories for articles of headings 9301 to 9304, nesoi
94019025	Parts of seats (o/than of 9402) nesoi, of cane, osier, bamboo or similar materials