UNITED STATES TRADE REPRESENTATIVE

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301 COMMITTEE

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SECTION 301 TARIFFS PUBLIC HEARING

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WEDNESDAY
MAY 16, 2018

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The 301 Committee met in the Hearing Room of the U.S. Trade Representative, 500 E Street, SW, Washington, D.C., at 9:00 a.m., William Busis, Brooks Allen, and Arthur Tsao, Co-Chairs, presiding.

PRESENT
BROOKS ALLEN, Chair U.S. Trade Representative
WILLIAM BUSIS, Chair, U.S. Trade Representative
ARTHUR TSAO, Chair, U.S. Trade Representative
ALEXANDER ABAJIAN, Council of Economic Advisors
MICHAEL ADJEMIAN, Council of Economic Advisors
CHRISTOPHER BLAHA, Department of Commerce
SARAH BONNER, Small Business Administration
JULIA HOWE, U.S. Trade Representative
NICOLE KORKOS, Council of Economic Advisors
SAGE MITCH, Department of the Treasury
DEWEY MOORE, Department of State
BRYAN O'BYRNE, Small Business Administration
MAUREEN PETTIS, Department of Labor
KATE PSILLOS, Department of Commerce
PETER SECOR, Department of State
ADAM SULEWSKI, Department of Homeland Security, Customs and Border Protection
TIMOTHY WINELAND, U.S. Trade Representative

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

WITNESSES PRESENT
DAVE ALLEN, Vista Outdoor, Inc.
SHEILA ANDERSON, Daktronics, Inc.
ERIK AUTOR, National Association of Foreign-Trade Zones
AMBASSADOR KARAN BHATIA, General Electric Company
ANDY BINDER, Office Supplies Solutions, HP Inc.
JOHN CAMPBELL, Ball Corporation and Ball Metal Beverage Container Corporation
SAGE CHANDLER, Consumer Technology Association
EVI CHRISTOU, Dana Corporation
KATHLEEN CLAS, Kodak Alaris, Inc.
JOHN CONSTANTINE, Apex Tool Group, LLC
JONATHAN DAVIS, SEMI
ERIN ENNIS, US-China Business Council
DAVID FRENCH, National Retail Federation
DOUG FRIESEN, SANY America
MIKE GRAY, Valmet Corporation
CHARLES GRAY, Teradyne, Inc.
JORDAN HAAS, Internet Association
EVA HAMPL, U.S. Council for International Business
RICK HELFENBEIN, American Apparel & Footwear Association
ANNE HOEF, Mabuchi Motor America Corporation
JOHN HOFF, Global Point Technology
JULIA HUGHES, U.S. Fashion Industry Association
DAVID HULL, Precision Components, Inc.
RAYMOND KEATING, Small Business & Entrepreneurship Council
MICHAEL KERSEY, American Lawn Mower Co., Great States Corporation
JUDD LARNED, Culligan International Company
MARK MAROON, Maroon Group, LLC
STEVE McGUIRE, McGUIRE Bearing Company
GREG MERRITT, Cree, Inc.
BILLY MILLIGAN, Commercial Metals Company

CHARLIE MURRAH, Southwire Company, LLC
GREGORY OWENS, Sherrill Manufacturing/Liberty Tabletop
JASON OXMAN, Electronic Transactions Association
JOHN PFEIFER, Mercury Marine
BLAKE PHILLIPS, EQI Ltd
KYLE PITSOR, National Electric Manufacturers Association
RYAN RASMUSSEN, Dover Artificial Lift
DYLAN REED, Advanced Energy Economy
ALAN SHAW, Electrolux Major Appliances North America
BRIAN SMITH, LBC Bakery Equipment, Inc.
JON STOKES, The Flexitallic Group
ERNEST TAI, LW Scientific, Inc.
CAMMIE TEEMS, Bestway (USA), Inc.
RUSTY THARP, Goodman Global, Inc.
BRAD THOMPSON, Columbia Forest Products
NICOLE VASILAROS, National Marine Manufacturers Association
DOUGLAS WAGNER, International Imaging Materials, Inc.
ANN WILSON, Motor & Equipment Manufacturers Association
RICHARD WOLFF, JST Power Equipment
AMBASSADOR RUFUS YERXA, National Foreign Trade Council

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

Panel Ten

Panel Eleven

Panel Twelve

Panel Thirteen

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

9:01 a.m.

MR. BISHOP: Good morning and welcome. The Office of the United States Trade Representative, in conjunction with the interagency's Section 301 Committee, is holding this public hearing in connection with a Section 301 investigation of China's acts, policies, and practices related to technology transfer, intellectual property, and innovation. The United States Trade Representative initiated this investigation on August 18th, 2017.

The scope of the investigation is set out in the Notice of Initiation published in 82 FR 40213. On April 6th, 2018, USTR published a Federal Register notice describing the Trade Representative's initial determination in the investigation. That notice is published at 83 FR 14906.

The April 6th notice also seeks public comment on a proposed trade action to be taken in the investigation. The proposed action is an additional 25-percent duty on a list of products from China with an annual trade value of approximately $50 billion.

The purpose of this hearing is to receive public testimony regarding the proposed tariff action. The Section 301 Committee will carefully consider the testimony, the written comments already received in response to the Federal Register notice, and the rebuttal comments due on May 22nd. The 301 Committee will then make a recommendation to the Trade Representative on the action to be taken in the investigation.

We are honored to have a member of Congress here as our first witness. After the Congressman testifies, I will have some procedural and administrative instructions for the witnesses. And before Mr. Bishop introduces the Congressman, we'll ask the 301 Committee to introduce themselves, starting with DHS. Adam.

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

Policy.

MS. PETTIS: Good morning. Maureen Pettis, Department of Labor, Bureau of International Labor Affairs.

MR. BLAHA: Christopher Blaha, Department of Commerce, International Trade Administration.

CHAIR BUSIS: William Busis, Deputy Assistant United States Trade Representative for Monitoring and Enforcement and Chair of the Section 301 Committee.

MS. HOWE: Julia Howe, Director of the China Office at USTR.

MR. SECOR: Peter Secor, Department of State, Economic Bureau.

MR. BISHOP: Mr. Chairman, I'm pleased to present the Honorable Kevin Cramer, United States Representative from North Dakota.

REPRESENTATIVE CRAMER: Thank you, Chairman Busis and Members of the Committee for the opportunity to testify on the administration's Section 301 investigation responses which resulted in China's proposed retaliatory tariffs on agricultural products.

First, I want to express my support for the president's goals of combating China's unfair and harmful acquisition of U.S. technology. Like so many other issues, I acknowledge that the negligence of previous administration's in dealing with China's trade issues has put this president in a very difficult position.

I am, however, compelled to express concern on behalf of the agricultural producers of North Dakota who could feel a direct impact of proposed retaliatory actions on their very livelihoods. Our farmers are some of the most patriotic people in America. Many of North Dakota's 46,000 veterans were raised on farms and ranches and are testament to our state's patriotism.

However, with an already fragile farm economy, proposed retaliatory tariffs bring additional anxiety and uncertainty to those who work tirelessly to feed the world with safe, affordable, and nutritious food. Net farming is down 52 percent since 2013 in one of the steepest declines since the Great Depression. Chapter 12 bankruptcies have risen by 33 percent from just two years ago and costs of production have steadily climbed. Additionally, farmers have been the hardest hit by the Affordable Care Act's rapidly rising cost of health insurance, which has been crippling to many North Dakota families.

The current financial hardship of farming is due, in part, to predatory trade practices of foreign countries, including high and rising subsidies, tariffs, and non-tariff trade barriers. An additional concern is the uncertainty of U.S. trade policy, including potential changes to the North American Free Trade Agreement, U.S.-Korea Free Trade Agreement, and the loss in a competitive Chinese marketplace.

We recognize that President Trump has been fighting for American agriculture since

Inauguration Day, and we hope this continues throughout the negotiation of our trade deals with China. My constituents and commodity groups have shared a variety of their concerns, including an article published in foreign communications outlets by Mikkel Pates and April Baumgarten, which exemplify the importance of soybean trade with China. I wish to submit this article for the record.

About 70 to 75 percent of North Dakota's soybeans are sold to Pacific Northwest ports, according to the Upper Great Plains Transportation Institute in Fargo. Most of those beans go to China. However, as North Dakota farmer Randy Nelvin notes, "We recognize that soybean tariffs have been proposed but haven't gone into effect." Sir, we're hopeful the soybean tariffs do not go into effect and appreciate the administration's efforts to exclude agricultural products from any potential tariff list.

North Dakota corn farmer Kevin Skunes,

also serving as the president of the National Corn Growers Association, says, "As corn farmers, we need open markets for agricultural goods and want the trade doors with China to remain open. We appreciate President Trump's commitment to agriculture by offering Secretary Perdue the option to make emergency assistance payments to farmers, but farmers prefer having a market for their crops. While we're grateful for the support, America's farmers prefer building markets to new trade, not relying on aid payments."

And while not directly related to Section 301 sanctions, I also want to express my concern regarding the administration's recent implementation of Section 232 tariffs on steel and aluminum. North Dakota is home to more than 17,000 workers employed in industries dependent on production and consumption of steel and aluminum, particularly in manufacturing and energy. Widely-applied tariffs on these products increases costs for domestic manufacturers, which ultimately slows job growth and leads to higher prices for consumers.

I appreciate the administration's strong commitment to American energy dominance through its efforts to roll back harmful regulations and its support of job creation tax cuts. However, I worry tariffs will hinder the great progress we have achieved by making it more expensive to construct vital energy infrastructure, such as pipelines, which are necessary for America's long-term energy security. To this end, I encourage the administration to narrow the scope of these tariffs and provide for a robust exclusion process to ensure American manufacturers and energy producers have access to the products they need to keep America's economy growing.

Mr. Busis and members of the committee, I close with a comment about agriculture. As you proceed with commendable efforts to bring about a free and fair trade policy with our world partners, especially China, I want my testimony to reinforce that agriculture is the backbone of our country's economy. North Dakota farmers have always been proud to be part of the bread basket of America and I urge you to keep the importance of their role in the world at the forefront of trade negotiations.

Farming plays a key role in maintaining world peace, serving as the moral compass for a culture that values hard work, faith, and family. And throughout our nation's history, farmers have been crucial in keeping America strong. And while some disruption may be a necessary part of the negotiation process, it should not all be done on the backs of our farmers.

With that, I thank you for your time.

MR. BISHOP: Mr. Chairman, that concludes congressional testimony for the day. Congressman, we thank you so much for coming today, and we would invite the members of our first panel to please come forward and be seated.

Mr. Chairman, our first witness on

this panel is David French with the National Retail Federation. Mr. French, you have five minutes.

MR. FRENCH: Thank you for the opportunity to present the views of the National Retail Federation. NRF is the country'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.

My name is David French. I'm the Senior Vice President of Government Relations for the NRF. Since you have my written statement, I will be brief.

In the United States, retail supports 42 million jobs, roughly one in four of the nation's total. Retail is the last stop in a global value chain that sustains millions of high-quality jobs in fields like research and design, marketing, warehouse logistics and distribution, compliance, and finance.

Retailers import good for manufacturers and vendors in China for very specific reasons. They have the scale to produce large orders. They offer the best value, which means they combine low cost with reliable delivery, quality, and other such factors; and they're integrated in the global supply chain and retailers have longstanding relationships with vendors in China who we are confident meet our standards for labor and environmental and other forms of compliance.

Capacity constraints are real. Retailers do not source these same goods in the same quantity from other suppliers because other suppliers do not offer the combination of quality, quantity, and reliability that can be found in China. If retailers could substitute products made in the U.S. or other countries, they certainly would.

Beyond manufacturing capability, logistics are also an important consideration. Not every country has the combination of port facilities, road and rail, electrical grid, and workforce that is available in China. Lack of access to sufficient deep-water shipping capacity in Vietnam, for example, was a major issue in the consideration of TPP.

Even talking about tariffs is raising costs, as many retailers are looking at their supply chain and examining where other suppliers can be found. These costs will find a way into prices for products.

Twenty-five percent tariffs on imports from China will raises costs, as well, which we will have to pass on to consumers, even if there are alternative sources of supply, because, if there is an alternative vendor in another country, it will take time and money to move sourcing and the alternative vendor, by definition, already costs more than a Chinese vendor or else we'd be using them already.

So even though the alternative vendor is not subject to tariffs, higher costs of that vendor, plus the cost of moving orders, will be passed on to consumers. If there's no alternative vendor, the full amount of tariffs will get passed on to consumers.

Finally, most retailers have already placed orders with vendors for back to school and holiday sales. It is too late to switch those orders now, so the higher costs will be passed on to consumers if tariffs are imposed in the near term.

Our studies, which we included in the public docket, show that the higher cost will not only hurt consumers at checkout but ultimately hurt U.S. jobs. The negative impacts will reverberate through the economy and hurt domestic manufacturing and services firms. Agricultural workers in particular will be hard hit when China retaliates.

We encourage the administration to avoid these harms by working bilaterally and multilaterally to achieve a negotiated solution with China that addresses the serious IPR and other concerns as identified by USTR in the

Section 301 report. Another tool would be working with Congress to expand the scope of products eligible for benefits under Generalized System of Preferences, or GSP. China is not a GSP beneficiary, so expanding GSP to products like apparel and footwear would make it cost effective for U.S. companies to undertake the investments needed to divert sourcing from China to GSP-eligible countries.

It's not complicated. Higher tariffs are a tax on growth that will hurt consumers and cost American jobs. Thank you.

MR. BISHOP: Thank you, Mr. French. If Mr. Wolff is in the room, would you please come forward and be seated at your name sign. Thanks so much.

Our next witness on this panel is Rick Helfenbein with the American Apparel and Footwear Association. Mr. Helfenbein, you have five minutes.

MR. HELFENBEIN: Thank you for providing us the opportunity to testify this morning on an issue that is extremely important to our industry and to the economic health and prosperity of our nation. I am appearing on behalf of the American Apparel and Footwear Association. We represent more than 300 companies and a thousand world-famous brands. Our industry employs nearly four million people and contributes more than $384 billion in annual U.S. retail sales.

My goal this morning is to convey three key points to you. We also intend to follow-up with a longer statement for the record.

So point number one, to be absolutely clear, we strongly support your combined efforts to seek a meaningful resolution of the underlying disputes with China. Forced technology transfer and intellectual property theft undermine the ability of U.S. companies to create and advance American employment. AAFA members have a long and well-documented history of working towards the improvement of Chinese IPR enforcement, especially, especially in the domains of trademark, copyrights, patent, and trade secrets.

While we have seen some progress in recent years, these gains are, at best, spotty, an insufficient to overcome systemic problems that hurt our members, their employees, and their shareholders. Thus, we cheer targeted efforts to ensure sustained long-term solution to this persistent problem. However, one note of caution. We need to be absolutely certain that the attempt to fix the problem does not endanger our overall trading partnerships and remains targeted to where the real issues lie.

Point number two, we are pleased, we are really pleased that the administration did not include any textiles, apparel, footwear, or travel goods on the initial list that was presented for tariff application. However, we do remain concerned that there could be an attempt to include these products in the current or future list. We strongly oppose any such move.

Please consider the following in taking that assumption: The United States already imposes a significant border tax on our products. As an industry, hear this, as an industry, we pay 51 percent of all Americans' receipts, even though we account for only six percent for all items that are imported. We are heavily taxed and we cannot afford further costs that would arbitrarily be imposed on our industry and on the American consumer.

It is a fact that tariffs are a hidden tax on U.S. consumers. Americans who buy our products are already over-tariffed with the average rate being 12.5 percent for apparel and 11.3 percent for footwear. The addition of a 25-percent tariff on top of this existing burden would have an immediate and inflationary impact in the United States. We estimate that a family of four would end up paying annually at least $500 more to buy our consumer products, and this does not account for any price increases that non-China suppliers would surely charge.

Point number three, we are deeply disturbed and actually saddened that the new tariff list included several categories of imported equipment and machinery that our members need to make product in the USA. The list includes items such as circular knitting machines for hosiery, loom weaving machines, embroidery machines, warp knitting machines, sewing machine equipment, and textile spinning machines, all used to make textile, apparel, and footwear in the USA.

After seeing some growth in our made-in-USA business components, subjecting these items to additional 25-percent tariff is, we believe to be, unconscionable. In many of these categories, China is our top equipment supplier in the United States. Adding a tax to the basic tools that we use to enhance made-in-the-USA will add cost to the U.S. manufacturing base, which will raise prices throughout the supply chain, hurt U.S. consumers, and hurt the growth of U.S. manufacturing. We are adamantly opposed to these items being included on the list.

In summary, we are truly pleased that

the administration has started a dialogue with China. There are many items in our relationship to fix, and it remains critically important to move this past the current state of unpredictability in our trade relationship. We remain hopeful that you can achieve decisive action and lasting progress in this area and that the tariff threat on the U.S. consumer and counter-tariffs from China, including items like U.S. cotton, can be eliminated. More tariffs are not a cure to what ails us. It is our hope that a negotiated solution to the real problem will be the ultimate result.

Thank you for your consideration of these views.

MR. BISHOP: Thank you, Mr. Helfenbein. Our next witness is Anne Hoef with Mabuchi Motor American Corporation. Ms. Hoef, you have five minutes.

MS. HOEF: Good morning and thank you for having me here this morning. My name is Anne Hoef, and I am the Treasurer of Mabuchi Motor

America Corp. For brevity, I'll refer to us as Mabuchi America.

Our office is in Troy, Michigan, which is located 20 miles north of Detroit. We are an American company and have been in business since 1977. Our staff of 25 hardworking full-time employees rely on Mabuchi America for their livelihood.

Mabuchi America engages in the import and resale of small DC motors to customers in North America. Our sales are approximately $180 million per year. We sell about 90 different motor models, from tiny electric toothbrush motors to larger motors for vehicle power windows and seats.

Our motors are very well accepted by customers worldwide because of our outstanding reputation for quality products at competitive prices. Automotive, medical, and consumer product industries are the primary users of our products.

The proposed Section 301 tariffs on

Chinese imports applies to two of our tariff numbers, 85011040 and 85013120. Mabuchi America is unable to shift its supplier source to factories outside of China in order to avoid the proposed tariff increase. We can't shift suppliers because our sole supplier is our owner, Mabuchi Motor in Japan.

Approximately 32 percent of our motors are produced in China and our supplier does not have additional capacity at their Vietnam and Mexico factories. The cost to retool a new location would be passed on to Mabuchi America by charging higher prices for motors. The flow-through cost from our supply would be much higher than the proposed additional 25-percent tariff.

We also can't shift suppliers because our customers must validate production location changes before they can purchase our motors. It takes approximately 6 to 12 months to validate a new production site. Product validation is very costly to both our supplier and our customers.

I hope you can see that sourcing

motors exclusively from non-Chinese manufacturers is not an option for Mabuchi America. If the proposed tariff is implemented, it will cause disproportionate economic burden on Mabuchi America. The tariff will affect approximately $17 million, or nine percent, of our annual sales, increasing tariffs by $3.6 million a year.

In order for us to remain profitable, we would have to increase prices to our customers. Such a price increase, which would be about 21 percent per DC motor, would put Mabuchi America at a significant price disadvantage compared to motor manufacturers and distributors outside the China supply chain. Ultimately, this can mean reduced sales and profits for us. We would likely need to layoff two staff since staffing is based on our projected sales.

Unfortunately, our U.S. manufacturing customers, and that's approximately 70, will be impacted the most by the proposed tariff increase. These customers would likely evaluate whether to continue using our motors at a higher price, or they might try to find a non-Chinese made model somewhere else. It may not be easy to find another supplier that can provide the specific motor model that they need. If they are able to identify a new supplier, they must validate the product before using the motor in their application.

Whether they stay with Mabuchi America or move to a different supplier, our customers will certainly be negatively affected by the proposed tariff increase. And like us, our customers will probably need to pass the added cost to their customers, ultimately the U.S. consumer. Consumers will pay the costs of this tariff with higher prices for medical services, consumer goods, and automobiles.

Mabuchi Motor America Corp respectfully requests that the proposed tariff increase on Tariff Number 85011040 and 85013120 on Chinese imports be removed from the proposed action. Thank you.

MR. BISHOP: Thank you, Ms. Hoef. Our

next witness is Julia Hughes with the U.S. Fashion Industry Association. Ms. Hughes, you have five minutes.

MS. HUGHES: Thank you. And thank you for the opportunity to be here today. Fashion is made possible by global trade, and that's why U.S. FIA urges the administration and the committee to leave fashion products off the list of products subject to tariff increases under Section 301.

First, a little bit about U.S. FIA. We represent apparel brands, retailers, importers and wholesalers based in the United States and doing business globally, including many of the iconic fashion brands worn and loved by everyone in this room. You're probably wearing many of our members today, and global trade allows them to produce quality affordable products for you, your families, and families across America.

Perhaps more than any other sector of manufactured goods, the fashion industry relies on global supply chains. A bale of cotton may be grown in Texas, shipped to Europe to be made into yarn, shipped to Korea to be made into fabric, shipped to Vietnam to be made into apparel, and then shipped back to the U.S. to be sold at a store in Texas. But even more exciting, those same garments may be using that supply chain may also be sold in Singapore, Japan, Dubai, or London.

We are acutely aware of the need to aggressively challenge all types of trade barriers. We support better market access, not only to boost U.S. exports or U.S. imports but also to facilitate global trade.

I'm not going to talk about imports. My colleagues have done and talked about the duties that we pay and the retail jobs for our sectors. But I do also want to note that fashion brands and retailers create high-quality, high-paying jobs in design, product development, logistics, sourcing, service opportunities here in the U.S., in addition to manufacturing jobs. These global value chains allow our member companies to provide Americans with affordable fashion made possible by trade.

So what do we need today? We think we need to be talking about multilateral action, not tariffs. Imposing tariffs on imports of our products and many others would do nothing to solve real concerns about China's IP policies and practices outlined in the Section 301 report.

From the experience of U.S. FIA member companies who source and sell products around the world, including and especially in China, the best way to address these concerns is action at the multilateral level that includes our other global trading partners. Believe us, our sector, we know about IP concerns and we want to resolve them.

Additional tariffs on clothing, footwear, and other fashion products would constitute a huge regressive tax increase and tariffs on these products are already among the highest for manufactured goods, reaching 32 percent of manmade fiber apparel and 67 percent for footwear. Why burden American families even more? And for many of these products, China remains the number one supplier in the world with no realistic options for other sourcing destinations that could replace China in the short term, medium term, or even the long term for some products.

So finally and most importantly, these tariffs would have a negative impact on the American jobs created by our members. And I want to highlight this because, for us, this is our most important message that we could bring today. Trade supports high-quality high-paying design, product development, logistics, sourcing, e-commerce, and service jobs. In fact, according to recent studies of our industry's global value chains, based on confidential data from companies, 70 percent of the value of imported clothing sold in the United States remains here in the U.S., even if that clothing is 100-percent manufactured outside the U.S.

We ask the administration to work with

us to foster, not discourage, the growth of these jobs at America's most innovative and iconic brands.

To conclude, we urge you to leave apparel and other fashion products off the list of products subject to tariff increases if there is retaliation, and we included in our written testimony the long list of products because it's apparel, it's travel goods, as we said before, it's accessories, it's purses, it's footwear, it's home textiles, it's jewelry. There are a lot of products where China is the major source.

We ask you to support fashion made possible by trade and the jobs we create right here in the United States. Thank you.

MR. BISHOP: Thank you, Ms. Hughes. Our next witness is Nicole Vasilaros with the National Marine Manufacturers Association. Ms. Vasilaros, you have five minutes.

MS. VASILAROS: Thank you and good morning. My name is Nicole Vasilaros and I am the Senior Vice President for Government and

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

Boating significantly contributes to the U.S. economy with $37 billion in annual sales, 650,000 jobs, and 35,000 marine businesses. Our industry is a uniquely American-made product. Ninety-five percent of the boats sold in the U.S. are made in the U.S.

American manufacturers like ours rely on a competitive global market, fair pricing, and economic stability to grow their business and hire more workers. While NMMA appreciates the administration's actions to target unfair trade practices, we believe the sweeping imposition of high and compounding tariffs will have a detrimental impact on U.S. marine manufacturers and consumer products.

This proposal penalizes American manufacturers that utilize global supply chains to efficiently deliver their products to consumers at a competitive price. Marine manufacturers have serious concerns regarding the inclusion of recreational marine products and component parts on this list, products including hydrojet engines, marine combustion engines, propellers, and fuel injection pumps are critical to propulsion and operability of recreational vessels. Subjecting these items to a 25-percent tariff will not penalize Chinese companies but rather American businesses that import these essential components and American consumers who will pay more for final products.

Marine electronics are another target for the pending tariff. Items such as navigational instruments, display monitors, radar, antennas, and transistors are essential components in a boat. The ability of boaters to properly navigate our waterways and signal for assistance is paramount to safe operation. This proposed tariff will not only increase the cost of the end product to American consumers but could jeopardize essential safety.

If this administration truly wishes to promote U.S. manufacturing, they must not increase the cost to domestically manufacture. A 25-percent tariff on manufacturing equipment, like molds, pulleys, gears, and ball bearings, will put U.S. manufacturers at a competitive disadvantage by unnecessarily increasing their manufacturing costs.

Lastly, this 301 tariff includes many aluminum and steel parts that are already facing tariff action through 232 and anti-dumping actions. The compounding effect of tariffs on steel and aluminum directly threatens U.S. marine manufacturers. Aluminum is a critical raw material for the boating industry, supporting 22,000 jobs and 43 percent of U.S. unit sales last year. A 25-percent tariff on aluminum component parts on top of a worldwide tariff and common alloy sheet tariff could be catastrophic.

This high and sweeping tariff will increase the costs of doing business to our 35,000 marine businesses and make boating less affordable for 142 million Americans that take to the water each year. Manufacturers do not have the luxury of finding alternative suppliers for many of the critical parts targeted on this exhaustive list. It could take years and even decades for competitive suppliers to come online, if at all. U.S. marine companies will be stuck footing the bill, which will impact profitability, increase costs to the end user, decrease sales, eliminate jobs, reduce investment in plants and equipment, and reduce U.S. global competitiveness.

While the tariffs are not yet in effect, the mere possibility of such tariffs on hundreds of millions of dollars of goods in the marine industry is already alarming our companies. For example, marine antenna receivers are an important component of boating safety and navigation. One U.S.-based marine manufacturer with facilities in Columbia, South Carolina, employs approximately 200 people but would face significant cost increases from a tariff on component antenna parts sourced to a Chinese facility, assembled in the U.S., and sold throughout the globe.

American businesses should not be subject to steep tariffs in an effort to deter China from its unfair trade. These issues would be far better addressed in a negotiated bilateral trade agreement with China.

The proposed tariff action would tax U.S. manufacturers without guaranteeing the objectives by USTR in this report. The remainder of my written comments and the specific HTS codes consisting of marine products, component parts, and machinery are found in your written materials and I urge USTR to exclude this from a final determination list. Thank you.

MR. BISHOP: Thank you, Ms. Vasilaros. Our final witness on this panel is Richard Wolff with JST Power Equipment. Mr. Wolff, you have five minutes.

MR. WOLFF: Good morning. I'm Richard Wolff, Vice President of Business Development for JST Power Equipment, and I appreciate the opportunity to present my testimony.

The specific products sold by our company subject to the increased duties proposed by the USTR are medium-voltage cast epoxy resin transformers which fall under the HTS sub-headings 85043300, 85043400, and 85049096. Collectively, these HTS sub-headings cover all medium-voltage dry-type transformers and the components to build those.

For the reasons which I will now mention, we request that you remove the foregoing products from the list of those targeted for action by the USTR. The first reason, absence of technology transfer for these specific products from U.S. to China. The technology for cast epoxy resin transformers is not new, and the U.S., historically, has not been a leader in the field. The technology was initially developed in

Europe around 1962. Soon after, the markets in Europe and East Asia were developed for this type of transformer. Eventually, China became the world's largest market as a result of building codes which were adapted around 1993, which required any building with public access to utilize cast epoxy resin transformers.

In contrast, the market for these types of transformers developed at a much slower pace in the U.S., which predominantly use varnish-type BPI transformers. As demand grows in the U.S., it was simply imported from Europe.

In general, the technology for medium-voltage dry-type transformers is very mature and common worldwide. There is no reason that the U.S. will lose a competitive edge related to these products, and the proposed tariffs will do little to protect any technology interest of the U.S.

On the contrary, JST Power Equipment has been able to leverage the robust market conditions in China to reinvest in R&D and develop technology which has been brought to the U.S. As a result, the technology transfer is going from China to the U.S.

The second reason, little to no influence with respect to a shift in China's policies as the stated objective. The tariffs being contemplated for medium-voltage dry-type transformers will have little to no effect on the trade policies being pursued by the Chinese government which were found objectable. First, JST Power Equipment is not and has never been a state-owned enterprise. The Chinese government has never been a state-owned enterprise. The Chinese government has never held any interest in the company and, as such, will not be directly affected by tariffs which are imposed on the company's products.

Secondly, the company's sales in the U.S. are too small to adversely affect the Chinese operation to indirectly influence the Chinese government into reforming its trade policies. The U.S. remains a niche market for cast epoxy resin transformers, estimated to be about 150 million in annual sales versus over a billion dollar market in China.

Since the company's share of the U.S. market is only 6.4 percent of the tariffs being contemplated, it will only affect about 9.5 million of its worldwide sales, which is not a significant factor to influence the Chinese government to alter its path on trade.

The third reason, misappropriate economic harm to U.S. interests, including small or medium-sized businesses and consumers. While the proposed tariffs are unlikely to have a significant effect on the company's operations in China, they will have a huge impact on its operations in customers in the U.S. Simply stated, if implemented, the tariffs will put the company at such a disadvantage domestically as to make its continued presence in the U.S. untenable. This would be unfortunate because the company has established assets in the U.S. to manufacture, test, and produce field service for its products. This adds to the local economy by providing employment, generating tax revenue, and offering a cost-effective product which helps to build U.S. infrastructure. Ultimately, American jobs will be lost if the company were to cease its U.S. operations.

The company has also established an international purchasing function at its Carlstadt, New Jersey facility which sources components from U.S. vendors to be used in manufacturing operations in China. As a result, the company's withdrawal from the U.S. market would have a ripple effect. The proposed tariff would also artificially increase costs of the company's U.S. customers in America.

It is respectfully requested that the products listed under HTS sub-heading 85043400, 85043300, and 85049096 be removed from the list of products being considered by your office. Thank you.

MR. BISHOP: Thank you, Mr. Wolff. Mr. Chairman, that concludes direct testimony from this panel.

CHAIR BUSIS: Okay. Before we move to the questions of this panel, we will provide the administrative reminders for today. This hearing is scheduled for three days. Today is the second day of the hearing. We have 17 panels of witnesses with over 100 individuals scheduled to testify. The provisional schedule has been posted on the USTR website.

We have seven panels of witnesses scheduled to testify today. This is the first panel. We will have a brief break between panels and a longer break for lunch.

Each organization appearing at the hearing is limited to five minutes of oral testimony and the lights will assist Mr. Bishop in controlling the timing. After the testimony from each panel of witnesses, the Section 301 Committee will have an opportunity to ask questions. All questions will be from agency representatives. There will be no questions accepted from the floor. Committee representatives will generally direct their questions to one or more specific witnesses.

Post-hearing comments, including any written responses to questions from the Section 301 Committee, are due by Tuesday, May 22. The rules and procedures for written submissions are set out in the April 6th Federal Register notice.

Given the number of witnesses in the schedule, we request that witnesses, when responding to questions, be as concise as possible. We likewise ask witnesses to be understanding if and when the Chair ask that a witness conclude a response. In this regard, witnesses should recall that they will 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 conclusion of this hearing.

MS. HOWE: My first question is for Mr. French. I'm Julia Howe with USTR, and my first question is for Mr. French. So you testified as to the general effects that the proposed tariffs would have on U.S. retailers. Could you give the committee a sense of how acute the impact would be? For example, would tariffs on particular products cause a particularly acute impact and would particular types of retailers be most affected by the proposed tariffs?

MR. FRENCH: Thank you. Well, let me point to a study that we conducted with the Consumer Technology Association that concluded that the proposed tariffs on televisions, for example, would raise the cost of a certain kind of television from approximately $250 to $308, an increase of 23 percent.

Our study has drawn that conclusion based on, that kind of television is typically sold at a Black Friday sale, so it's a smaller size and maybe different characteristics than would be typically available in the market at other times of the year.

I think the second part of your question was which kinds of retailers would be more acutely hurt. The smaller the retailer, the more the pain and the less control they have over their supply chain in terms of where the product is sourced, and so the more vulnerable they are to price increases passed along from manufacturers.

MR. SULEWSKI: This question is for Richard Wolff with JST Power Equipment. Listening to testimony, to your knowledge, are there any domestic U.S. producers of cast epoxy resin transformers? You had indicated there are some uses for which the cast epoxy resin transformers are preferred and cannot easily be substituted for. Can you describe the alternative products that can compete with cast epoxy resin transformers and what the difficulty is in substituting them?

MR. WOLFF: Yes. The market in the U.S. is pretty much an oligopoly. There is another manufacturer in the U.S., but I believe they're of European origin. It's ABB. And they also have assets in the U.S., as well.

There is, when you get into technical differences, a little bit of a difference in their product versus ours, so sometimes substitution is not as easy. But, basically, in the marketplace, it's us and them. If we're chased out of the marketplace because of tariffs, then, in effect, the market will be a monopoly with one supplier for cast epoxy resin transformers.

MR. BLAHA: Hi, Chris Blaha, Department of Commerce, and I had a question for Miss --

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

MR. BLAHA: Oh, sorry. My question is for Ms. Hoef from Mabuchi Motor. Anne, I think you had mentioned a little over three percent of your imports came from China. I was wondering where else the imports came from and does it all come from your parent company?

MS. HOEF: It all comes from the parent company. We're a wholly-owned subsidiary of Mabuchi Motor in Japan. Thirty-two percent of our motors do come from China. The others remaining come from Vietnam. And then we just opened a factor in Mexico, so we started production there last year.

MR. BLAHA: Thank you. And you gave a few examples, I think, of the motors used for automotive products. Could you just give a specific example of, you mentioned medical equipment.

MS. HOEF: Yes. So in automobiles, and I just learned this, like, in the last two weeks, so bear with me, but so the side mirror in your car, so you use that little control to adjust your mirror, we're in there. We're in a lot of cars in the U.S. Medical, there's a device that's used to suction wounds, like during surgery or maybe during an ER. I think it's called a lavage pump. It's used in that, so it's a disposable pump.

About 30 percent, and this surprised me, about 30 percent of the U.S. manufacturers affected by this tariff on our motors are medical. So being in the Detroit area, obviously we're focused on automotive, but I'm surprised how much of medical and actually consumers. We also have a large consumer manufacturer that does razors, the little teeny razor motors.

MS. PETTIS: I'm Maureen Pettis from the Department of Labor. This is a question for Ms. Vasilaros. Are the component products you've identified manufactured domestically --

MR. BISHOP: Maureen, can you speak directly into your mike, please? Thanks so much.

MS. PETTIS: Sorry. Are the component products you've identified manufactured domestically in the United States and are any manufactured nowhere other than China? Do any of the component products you've identified constitute a large share of cost of any downstream production?

MS. VASILAROS: So it's a bit of a mix. I'll kind of answer backwards. Some of the component products, such as the engines themselves, that's a significant portion of the overall cost of the vessel. So that would have a significant impact on the overall price for the consumers.

As far as other areas where some of these component products are sourced, Mexico and Canada are some other large trading partners. But keep in mind the range of products that are on this list. Almost every boat has at least one of it. So if you have your antenna, the screen, the GPS, the radar, everything, even down to some of the ball bearings that are used in the engine itself. So from our studies, at least every boat will have some sort of impact from these component parts, but a large price would be from the engine and more of the technology in the vessel itself.

MR. SECOR: Peter Secor from the State Department. My question is for Mr. Helfenbein and it --

MR. BISHOP: Can you pull your mike a little closer, please?

MR. SECOR: My question is for Mr. Helfenbein. It relates to the point you made about equipment and machinery. Your submission indicates that the imposition of tariffs on textiles, apparel, and footwear equipment and machinery will result in increased costs for your members who are making these products in the United States. China represents only ten percent of total imports of these machinery lines, and the majority of these tariff lines are currently duty-free. Approximately how long would it take for the domestic or non-Chinese producers to meet domestic demand if tariffs were placed on imports of these products from China?

MR. HELFENBEIN: A quick and easy answer to that, China is a large percent of the machines that I specifically mentioned, and the ability to replace them is, A, not easy and, B, difficult, and also China is a low-cost supplier.

So as we're trying to grow the made-in-USA business, any tariff that you put on machines that we bring in to do that is a hurt. You immediately try and go and source the machines somewhere else. The supply is limited, the price is higher. And it ends up having a negative impact.

We're working really hard to improve made-in-USA. Tariffing the tools that we use to do it is really not a help.

MR. BLAHA: This question is for Ms. Hughes in the U.S. Fashion Industry Association. You indicated that the imposition of tariffs on clothing, footwear, and other fashion products would constitute a tax increase. These products were not on the proposed list. If tariffs were imposed on these products, how long would it take for U.S. brands and retailers to change their sourcing patterns either domestically or to other countries?

MS. HUGHES: Thanks for the question. And, yes, you're right, we're appearing and talking about a lot of products that aren't on the initial list but have been threatened for future lists. And we know that later testimony is going to talk about adding us to the list, so we really wanted to be proactive to get our message out there.

So without being too long-winded, our industry is kind of interesting, a little bit different maybe than some of the others, so there's a lot of concentration, I'll just talk about apparel for right now, of apparel products that are made in China with China the top supplier, supplying about 41 percent by quantity, and Vietnam the second-largest supplier, about 13 percent. So we have more than half of our imports are coming from those two countries.

A lot of our members have looked at how they can look at some strategic planning for alternate sourcing, and it would take a long time. And right now it's not clear that there's capacity available even to replace China, which is why we suspect that, for some companies, they will be forced to have to pay the tariff if there is a tariff imposed on our products. And why is that? I mean, part of that is because our sector has been, for so long we were under special protection with the quotas. And when those ended, there was really a growth for the most competitive countries, which included China, Bangladesh, India, Indonesia. And today there's not a lot of unused capacity in those countries.

We know that we could talk about trying to source more from some of our free trade partners, and I'll include in the post-hearing comments some additional information from analysis that we've gotten from some of our members. But even there today, talking with folks in the region, for example NAFTA and CAFTA suppliers, they're basically at most of the major factories, say they're at full capacity right now, so we see a potential dilemma if we're looking to source someplace else that will either raise prices or, frankly, we won't be able to find the product.

CHAIR BUSIS: Thank you, Ms. Hughes. As you noted, you're welcome to elaborate in your post-hearing brief and you're also welcome to comment on other testimony that you had mentioned. That's fine.

Mr. Bishop, I think -- are there anymore questions from the panel? No. Okay. I think we're ready to call the next set of witnesses.

MR. BISHOP: We release this panel with our thanks, and we invite our next panel to please come forward and be seated.

(Pause.)

MR. BISHOP: Our first witness on this panel is Billy Milligan of Commercial Metals Company. Mr. Milligan, you have five minutes.

MR. MILLIGAN: Thank you and good morning. My name is Billy Milligan. I'm the Director of Marketing for Commercial Metals Company. I appreciate this opportunity to appear before you here today to express our support on the Chinese origin products being imposed under

Section 301 and to request that the USTR add steel fence posts to that list of products. These steel products are classified under HTS Number 73269086.

First, I'd like to provide you with a little bit of background on our company. CMC is one of the world's most technologically-advanced and efficient steel producers, as well as the largest producer of steel fence posts in the U.S. We pioneered the micro mill technology, which enables us to produce steel-like fence posts at a very efficient and globally competitive cost.

The American steel industry today as a whole is as modern and competitive as any in the world, and we can provide the U.S. with most all of its steel needs that a modern industrial economy would need. However, unfair steel imports from China have long caused serious damage to our industry and inhibit our ability to compete with government subsidized imports.

As USTR detailed in its Section 301 report, these imports from China have been fueled by Chinese government policies, including Made in China 2025 and unfair trade and other practices by Chinese government. CMC is pleased that the U.S. government is seeking to address these unfair practices through the imposition of an additional 25-percent duty on the list of Chinese origin products. However, we do request that USTR also include fence posts on the list of Chinese origin products to be subject to the duty.

According to the official statistics maintained by USITC, imports from China under this code accounted for nearly $1.4 billion in 2017. These imports have had a devastating effect on U.S. manufacturers and their workers. We estimate that, currently, the Chinese origin fence posts have increased by 82 percent since 2009 and command over 20 percent of the U.S. market today.

USTR has explained that these products on which Section 301 duties are being imposed is dependent upon a number of factors. First, the duties will be imposed on products that have benefitted from Chinese industrial government policies. For decades, the Chinese steel industry has benefitted from policies of the government, including numerous five-year plans specific to the steel industry and the Made in China 2025 which addresses the steel sector in the technology roadmap for Made in China 2025 priority sectors. Thus, steel fence posts, like other steel products, are a strong candidate for inclusion on the Section 301 duties.

At the same time, additional duties on these products are not likely to cause disruptions in the U.S. market as there are multiple U.S. sources and alternative non-Chinese import sources for these products. CMC and four other manufacturers produce these fence posts in the United States today. There are also significant imports under this code from other training partners, including Mexico, Canada, Germany, Japan, Taiwan, Korea, and Malaysia.

CMC is also not aware of any other

legal or administrative constraints affecting this tariff line. Therefore, we request that USTR add steel fence posts to the list of Chinese products subject to the 25-percent duty.

Unfair imports of these products from China have had a significant effect on CMC's profitability, employment, ability to invest, and, in response to a flood of imports since 2008, CMC has been forced to close 30 locations and reduce our workforce by 4,000 jobs. Imports have also adversely affected our ability to make new investments, causing us to put expansion plans on hold.

We cannot allow China's industrial plans, technology transfer policies, cyber-enabled theft, and illegal government subsidies to cause further injury to U.S. manufacturing. CMS greatly thanks USTR and the other government agencies involved in the Section 301 for taking steps to address China's unfair trade and related practices.

We respectfully request that USTR add

steel fence posts classified under HTS Number 73269086 to the list of products subject to the Section 301 duty. On behalf of CMC and our more than 7,000 American workers, we thank you.

MR. BISHOP: Thank you, Mr. Milligan. Our next witness is Charlie Murrah of Southwire Company, LLC. Mr. Murrah, you have five minutes.

MR. MURRAH: Good morning and thank you for the opportunity to testify. My name is Charlie Murrah, and I'm the President of the Power Systems and Solutions Group at Southwire Company. Southwire is North America's leading manufacturer of wiring cable used in the transmission and distribution of electricity. Southwire is a family-owned business located in Carrollton, Georgia. Over 7500 employees, more than 2500 people work at seven U.S. facilities located in six states where Southwire manufacturers products that are affected by the gaps in the 301 list.

Southwire manufactures a central component of the U.S. electric grid: electric cables, including high-voltage bare aluminum cables classified under HTS 7614 and medium-voltage insulated aluminum cables classified under HTS 8544.60. In order to protect U.S. national security and ensure the dependability of the electric grid, Southwire requests the addition of these two products to the 301 list.

As the Department of Commerce noted in its Section 232 report, aluminum transmission cables power the nation, delivering electricity from power-generation facilities across long-haul transmission grids for distribution at the regional, state, and local level. These cables are the very skeleton of the U.S. electric grid, without which electricity would not be carried to homes and businesses.

Commerce specifically recognized Southwire as a major manufacturer of these cables. Maintaining the U.S. production of these cables ensures the security and reliability of the nation's electricity grid.

While USTR included other types of

cables on the 301 list, it failed to include high-voltage bare aluminum cables and medium-voltage aluminum cables. As a result of this omission, the scope of the tariffs imposed under Section 301 contains a massive hole that Chinese producers will exploit to gain further market share at the expense of American producers.

Chinese manufacturers already pose a substantial threat to the U.S. industry. Chinese imports have increased and are sold at prices that severely undercut U.S. prices. In our confidential written submission, we demonstrate how Chinese producers continually undersell Southwire by substantial margins. As a result, Chinese producers are capturing an increasing share of the U.S. cable market.

The problem is further exacerbated by the fact that the primary aluminum that Southwire uses to produce cables is covered by the 232 measure, but the scope of 232 does not include these cables in their finished form. As the sole producer of aluminum rod used to manufacturer cables, Southwire recognizes that U.S. primary aluminum production cannot increase by enough to fully meet the needs of the U.S. market. Therefore, Southwire must import primary aluminum to round out our supply needs.

Southwire purchases a majority of our primary aluminum from domestic sources. Prices in the U.S. have risen significantly as a result of the 232 measure and the sanctions imposed on Russian aluminum. Thus, while our costs have risen, we largely remain unable to increase prices because of the intense competition from Chinese imports.

The hole in the scope of the Section 301 tariffs will encourage Chinese producers to increase their low-priced shipments of finished products, increase shipments combined with the impact of the additional tariffs, and sanctions on our raw material costs pose a threat to the existence of a large portion of our business.

If this situation persists, Southwire will likely be required to reduce our workforce by as much as 35 percent or 2500 people. Southwire will likely be forced to shutter all or part of seven of our U.S. facilities in six states.

The solution to the problem is simple: we urge USTR to add high-voltage bare aluminum cables classified under HTS 7614 and medium-voltage aluminum cables classified under HTS 8544.60 to the list of products subject to the Section 301 tariffs. USTR has already included other cables on the 301 list, and we ask that USTR keep those cables on the list.

Thank you for your time and attention to this important matter. I'll be happy to answer any questions you will have.

MR. BISHOP: Thank you, Mr. Murrah. Our next witness is Gregory Owens of Sherrill Manufacturing/Liberty Tabletop. Mr. Owens, you have five minutes.

MR. OWENS: Good morning and thank you for affording me the opportunity to come in and testify before the committee. My name is Greg

Owens, and I am the co-founder and Chief Executive Officer of Sherrill Manufacturing here representing our company and our employees.

If you drive west from Boston to Chicago on Interstate 90, you will pass by abandoned factory after abandoned factory. If you get off on New York Exit 33, you will arrive in Sherrill, New York, former home of the iconic flatware brand Oneida, what was at one time the world's largest flatware factory back in the 1990s.

Factories started operations during the Civil War. Like thousands of manufacturing businesses across the rust belt, Oneida was unable to compete with ever-lower prices coming out of China. Despite efforts to streamline, automate, and justify continued operations in any way they could, there was simply no way to make the math work, and they finally gave up in 2004.

Oneida once had 2500 manufacturing employees at the Sherrill plant and it was, by far, the largest employer in town, a town that they literally built. The largest employer in town now is a casino, and the biggest problems are unemployment and the opioid crisis. Sherrill, Oneida, New York was once known as the silver city and now it seems like it's more famous for the weekly meth bust.

The math is simple. Subsidized commodity grids stainless steel coming out of China was half the cost of the domestic steel in the United States. With stainless representing 60 to 85 percent of the value of flatware produced in China, even if the company achieved a manufacturing cost of zero, they could still not compete.

Sales were falling because other brands who had abandoned manufacturing years before were selling finished product made in China to Oneida's competitors below their manufacturing cost. Since the mid-1990s, China has increased its share of the U.S. manufacturing market from virtually nothing to now where they represent 70 percent of all imports.

After the Oneida plant closure, Matt Roberts and I decided to purchase the factory and start Sherrill Manufacturing. We bought the land, buildings, and all of the equipment inside. Sherrill signed a short-term contract to provide Oneida with a small amount of flatware products. That initial contract has since expired, and Sherrill Manufacturing is now an independent company with our own brand, free from any non-compete clauses. Our brand is Liberty Tabletop.

Our formula for fighting unfair Chinese competition is to cut out all of the middlemen and sell direct to the consumer via our website and through Amazon. We also enjoy substantial contract with the military through GSA, and our business model is rounded out by several OEM contracts that we have selling flatware to other brands in the United States. The low-cost business model of imports prohibits us from participating in traditional retail with brick and mortar stores, which still account for the vast majority of sales in the U.S. market.

While the factory-to-table business model leveraging our advantage by eliminating massive middlemen markups has allowed us to grow our internet sales, we are starting to see another threat. Companies in China are now using the tooling or the molds that they use to supply other American brands and have started production of their own brands, selling direct on platforms like Amazon. The new China direct brands are also starting to show up in stores. The technology and the flatware designs now transferred by the American companies has rendered the American IP largely unprotected.

Production at our factory was once in excess of $150 million per year. This year, due to this foreign competition, we will be slightly over $2 million. We would like to change that. This is why we are submitting our petition to have flatware imported under harmonized codes 821520 and 821599 included in the list of items to be levied at a 25-percent duty. This will be a significant factor in leveling the playing field for our company, allowing us to hire more workers and regain market share lost over the past several decades.

If the requested relief is granted, perhaps we can fulfill our mission of making Sherrill, New York the silver city once again. Thank you for your time and your continued efforts in the interest of American factories and our workers.

MR. BISHOP: Thank you, Mr. Owens. Our next witness is Brad Thompson of Columbia Forest Products. Mr. Thompson, you have five minutes.

MR. THOMPSON: Thank you. Good morning. My name is Brad Thompson. I'm here today as a representative of the Coalition for Fair Trade of Hardwood Plywood. I am also the president and CEO of Columbia Forest Products. Thank you for the opportunity to testify today on Chinese technology, intellectual property, and innovation practices and to discuss why it is imperative the U.S. imports of Chinese softwood face plywood are added to the USTR's Section 301 list.

Our domestic coalition of hardwood plywood manufacturers represents the vast majority of production capacity in the United States. It's member companies employ thousands of workers at facilities across the country.

My company, Columbia Forest Products, is the largest producer of hardwood and decorative plywood in the United States. In 2017, we produced close to 400 million square feet of plywood. We are proud to be an employee-owned company. Our 2,000 owners work in eight different states across the United States.

Only a few years back, the domestic industry was near collapse due to unfair trade practices from China. As a result, the coalition filed anti-dumping and countervailing duty petitions against the unfairly trade imports of hardwood plywood from China in November of 2016. Last December, the International Trade Commission unanimously found the U.S. imports of Chinese hardwood plywood were causing material injury to the domestic industry. The commission found that Chinese imports gained U.S. market share at the expense of domestic industry, significant underselling of Chinese imports, and that, despite increasing U.S. demand, the domestic industry production capacity, sales, and employment were all in decline.

In January of 2018, the Commerce Department finalized its orders imposing significant duties on Chinese hardwood plywood, more than 200 percent combined in dumping and subsidy cases. The merchandise covered by these orders is hardwood and decorative plywood, which is largely used for interior purposes.

While the trade orders have benefitted the domestic hardwood plywood industry, these benefits are being eroded by Chinese circumvention. The scope of the hardwood plywood orders provided that in-scope merchandise has at least one face made of hardwood. Even before preliminary duties were imposed, Chinese producers began to evade them by offering a new product, interior plywood with face and back veneers made of softwood, such as radiata pine. This product was used for the same application as in-scope merchandise but was developed specifically to circumvent the anticipated AD and CVD orders.

The result of this circumvention has been a surge in U.S. imports of radiata pine and other softwood species from China. To illustrate the gravity of this situation, prior to the filing of our trade case U.S. imports of Chinese plywood with a face and back veneer of certain softwood species, much of which is radiata pine, totaled 40,000 cubic meters in 2016. After current Commerce initiated our trade case, these imports surged more than 500 percent, reaching a staggering 230,000 cubic meters per year's end.

Now that orders are in place, Chinese producers have become even more relentless. They have moved up the value chain, saturating the U.S. market with unfairly-traded softwood face product at the direct expense of the U.S. producers, U.S. workers and, more generally, the U.S. economy.

In the first two months of this year alone, Chinese imports of softwood species exceeded 109,000 cubic meters, which is nearly triple the volume that entered the U.S. market in all of 2016. In other words, despite the significant duties imposed on Chinese hardwood plywood, the domestic industry is still losing sales to heavily-dumped and subsidized Chinese imports. This result is unacceptable. Neither our companies, nor workers, can compete with Chinese industry that refuses to play by the rules and a government that supports them, nor should we have to.

I'm here today to ask the USTR to add HTS provisions for radiata pine and other softwood-faced species to the list of tariff lines to be covered by the agency's proposed Section 301 tariffs on Chinese merchandise. Doing so will have the benefit of targeting a massively-subsidized Chinese industry and address China's technology, intellectual property, and innovation practices.

Adding these HTS provisions will also address the circumvention of trade remedies and benefit the U.S. economy overall. Thank you for your time and attention.

MR. BISHOP: Thank you, Mr. Thompson. Our next witness is Sheila Anderson of Daktronics, Incorporated. Ms. Anderson, you have five minutes.

MS. ANDERSON: Thank you for your support of Daktronics and other American businesses in your evaluation of Section 301. We commend and agree with your efforts and the administration's efforts to promote fair trade with China. Specifically, if tariffs are enforced or imposed, we ask you add tariffs to Chinese imported LED display and messaging systems and to the related modules and assemblies used to create LED displays.

Daktronics is celebrating our 50 years

in business this year. We design, manufacture, sell, and service digital display systems for customers around the world. We are headquartered in the great state of South Dakota and employ over 2,700 people worldwide, of which 2,000 highly-educated and skilled employees reside in the United States and are paid more than $100 million in salaries and benefits annually.

Our display solutions are designed to entertain and inform audiences. We strive for customers for life, and you may recognize our systems in sports from facilities like the Mercedes Benz stadium in Atlanta, Georgia, to your alma mater university or to your local high school, in entertainment venues like Times Square and in Las Vegas or along roadways, at your favorite national or local retailers or convenience stores, in malls, and in many other locations.

Our annual revenues average about $600 million with about 85 percent of those sales derived in the U.S. We reinvest approximately five percent of those revenues into product development annually and make continuous improvements to our production and service team processes to build capabilities through people, equipment, facilities, and improvements.

We, Daktronics, are one of the few full-service firms left in the United States in the digital display system business. We have watched our industry change over the past 20 years, becoming more like the solar panel and television industries. Little, if any, of those technologies are designed or built in the U.S. today. It's all off-shored, causing U.S. workers and innovators to lose.

Other domestic producers of LED displays have left the U.S. while Chinese imports of LED displays continue to rise. We estimate that, roughly, $400 million of the nearly $1 billion Chinese annual exports come into the United States. And while healthy competition strengthens the industry, unhealthy and unfair competition leads to a disadvantaged market participant.

For example, U.S. companies are paying for the problems generated in China. End users, from sports facilities to main streets, are being misled by Chinese importers and representatives who tout made in the USA with little to no U.S. value-added components, content, or production performed by U.S. workers.

Often, the Chinese products encounter performance issues, display quality issues, and are non-compliant to other U.S. regulatory standards. These problems are discovered long after all the payments are made to the Chinese company, who then is no longer reachable or available for customer concerns or points the customer back to the U.S. distributor for recourse.

The cost to fix product performance or to remediate non-compliance are born by the U.S. end users and distributors and integrators. U.S. businesses have little or difficult recourse against the Chinese manufacturers through the

U.S. court system. It also seems the Chinese market has created excess capacity and is dumping some of that excess into the U.S., lowering prices along with quality and reliability expectations.

To improve fair trade for U.S. companies, we ask and are advocating for the harmonized tariff codes for LED video and display screens, the main assemblies of LED product panels, and LED display modules be added to the 301 tariff listing. I've included those codes in my written testimony.

On the flipside, the components and materials we use to build our products come from both U.S. and international sources, including China. We recommend removing the following from the 301 tariff list, as we do not have a viable non-Chinese sourced components. They include 85414020 for light-emitting diodes which you'll hear from one of our suppliers, Cree, later today. Tariffs on these items would create a cost disadvantage to us and to other U.S.

manufacturers of display systems as base materials, like LEDs, are used in the manufacturing processes. Chinese companies generally don't import these base materials but, rather, would import completed modules, assemblies, or displays, as described in the HTS items we are asking to have included in the 301 codes.

Creating fair trade is complex and may not be solvable with just one action. In addition to HTS codes, we support your reviews of other trading issues and fair trade agreements. We ask for trade compliance enforcement. We believe that importers from China use HTS codes which are not to the specificity and accuracy required and ask our import agencies to enforce these regulations. If enforcement is not possible, we would ask for shorter codes or other codes also be included in the 301 tariff, including Section 85, and those are listed in our testimony.

Another aspect of fair trade includes

that intellectual property protection --

MR. BISHOP: Ms. Anderson, your time has expired, if you could wrap up for us, please.

MS. ANDERSON: We support your efforts to protect intellectual property. Thank you for your continued support and taking actions to improve U.S. trading environment. We request you to continue to work on trade agreements, apply tariffs to imported LED display and messaging systems, and monitor and enforce trading practices. Thank you for promoting U.S. economic and the innovative environment to support long-term prosperity. Thank you.

MR. BISHOP: Thank you, Ms. Anderson. Our final witness on this panel is Douglas Wagner of the International Imaging Materials, Incorporated. Mr. Wagner, you have five minutes.

MR. WAGNER: Good morning. Imposing tariffs on thermal transfer printing ribbons, known as TTR under sub-headings 3702.39, 3702.42, 3702.44, and 9612.10 of the harmonization tariff schedule of the United States, imported from

China will help reduce the negative impacts on acts, policies, and practices occurring in China have on the United States.

International Imaging Materials, known as IIMAK, is located in Amherst, New York just outside of Buffalo. We have 400 employees in the U.S. Our primary product is TTR.

TTR is a consumable used to print variable information, including barcodes or date information, on labels, packaging, or other media. TTR is used in many industries and in most countries. IIMAK and another domestic company are the only manufacturers of TTR from a list of large and small global competitors that produces the ink and coats the ink on polyester film exclusively in the U.S.

Over the last four years, we believe that $20 million annually of TTR representing approximately 25-percent market share of the TTR wax category is imported into the U.S. directly by Chinese companies and is sold well below market prices. To facilitate the exporting of

Chinese-produced TTR to the U.S., we believe that the government of China provides subsidies to these Chinese TTR manufacturers through low-cost or no-cost loans and significant export incentives. These subsidies are negatively impacting IIMAK, our employees, as well as the suppliers and contractors we do business with in the U.S.

In addition, during 2008, the Commerce Department imposed an anti-dumping duty order on polyester film known as PET imported from China. PET is the major raw material component in the manufacture of TTR. Chinese companies are circumventing the anti-dumping duty order by coating the PET film in China with ink and then importing the coated film, i.e. the TTR, using the harmonization codes noted above and selling these products in the U.S. at below market pricing.

Furthermore, our non-Chinese global competitors can purchase this Chinese-produced PET film, coat the PET film in the resident country, and then import TTR into the U.S., facilitating the Chinese PET film supplier's ability to circumvent the anti-dumping duty order. Imposing tariffs on TTR imported from China will help alleviate the negative impact that the subsidies from the government of China are creating in the U.S., as well as reduce the amount of the circumventing occurring related to the anti-dumping duty order in the U.S. for Chinese-imported PET film.

And as much as we would appreciate the 25-percent duty being imposed for TTR imported from China, we respectfully request the duty be increased to up to 80 percent to be in alignment with the existing anti-dump duties of polyester film currently in place. With such duties in place, this should stop or at least slow down the below-market selling practices of Chinese TTR manufacturers, as well as stop or slow down the circumventing of the existing duties on polyester film.

As CEO of IIMAK and on behalf of the

employees, our key stakeholders and shareholders, I'd like to thank you for the opportunity to be here and to be heard.

MR. BISHOP: Thank you, Mr. Wagner. Mr. Chairman, that concludes direct testimony from this panel.

MS. HOWE: The first question is for Brad Thompson. So you state in your testimony that Chinese plywood suppliers have begun to circumvent the AD CVD orders. How do you see that these proposed tariffs on plywood products would address this problem?

MR. THOMPSON: Well, in specific, the product now being manufactured in China is a radiata pine panel which is slightly different in terms of species but used in the exact same applications, so they're taking advantage of some language and we believe that a tariff on this product which does not currently fall under the anti-dumping language would help U.S. industry.

MS. HOWE: But on the plywoods that are already covered on the AD CVD, would the proposed tariffs address the circumvention on the plywood that --

MR. THOMPSON: Yes, yes, yes.

MR. BLAHA: Thank you. This question is for Mr. Milligan, Commercial Metals Company. You had made some reference to the growth in imports from China on these products. Do you have a sense of the U.S. market and what kind of share China has right now?

MR. MILLIGAN: Yes. If you go back to 2009, China had basically no market share of this product in the U.S. Since that time, it has grown to slightly over 20-percent market share that we share today or that they have today.

MR. BLAHA: Thank you. And do they ship a lot to other markets, do you know, or is the United States a primary destination?

MR. MILLIGAN: I'm not aware of other markets that they ship to, but I'm sure they do. China ships, exports product all over the world. I can't say definitively where they ship to, but they do ship product all over the world.

MR. BLAHA: Thank you. And you referenced that there were a few U.S. companies, as well as other foreign suppliers, that could produce this product. Do you have a sense of how fast capacity or production could be increased? Is there anything distinctive about this product or products from China that would complicate that?

MR. MILLIGAN: There's more than ample capacity today here in the U.S. There are four other producers other than Commercial Metals Company, and we're not running at capacity utilization levels today. Our capacity is running in the 60-percent range. And we are also in the process of building a new facility which is a very highly technological automated facility which will increase our productivity and competitiveness in the market. So very quickly.

CHAIR BUSIS: Mr. Murrah mentioned the fact of the 232 duties. Do you have face the same situation where the raw material was covered by the 232 duties but not your product?

MR. MILLIGAN: No, that is not correct.

CHAIR BUSIS: So which part is not correct?

MR. MILLIGAN: We are covered. The T post is covered by the 232.

CHAIR BUSIS: Okay. And so you think additional duties on top of the 232 would be helpful?

MR. MILLIGAN: Yes. I mean, the 232, as we've seen it today, it's not known what the future is for that. It could be changed tomorrow. There's been waivers granted. There are being exclusions granted as we speak. So we feel like there is no long-term protection over what has really evolved as China's ability to move into the U.S. and take over markets.

MR. SECOR: My question is for Ms. Anderson. Are you aware whether LED display screen or the industry is a sector covered under one of China's industrial policies and assisted by the Chinese state?

MS. ANDERSON: I believe it is under China 2020, the electronic industry including LED technology. So a factor of the LED technology helps the display industry.

CHAIR BUSIS: Ms. Anderson, could you, it would be helpful to clarify do you produce goods for, like, for retailers and public venues or do you produce an intermediate product that goes into the displays?

MS. ANDERSON: We produce the displays. There's a lot of components that go into a display, so in our manufacturing facilities in South Dakota and Minnesota, we will assemble and have all the creative engineering talent from electrical engineers, mechanical engineers. We have a lot of software components that go into the whole system, as well.

So if you think of the Mercedes Benz Stadium, if you look at during the play, you'll see all the LED screens and the halo scoreboards, the messaging systems that come up as you walk into the facilities. For retailers and throughout malls, we might be working with a mall retailer or with the specific brands, as well. The person that we're selling to depends. It's broad.

CHAIR BUSIS: And do you have a sense on the impact on your buyers, what would happen if the duties were imposed on the Chinese good? Would their cost go up by 25 percent, or how do you think we can --

MS. ANDERSON: Yes. We believe, as well, that we would be on a lot more level playing field if those Chinese-imported goods would be then at a fairer price comparison.

MR. MILLIGAN: Can I correct my original statement? I apologize.

MR. BISHOP: Could you please identify -- could you please identify yourself?

MR. MILLIGAN: Billy Milligan, Commercial Metals Company. I think the question was was the raw material covered under the 232. There's really two distinct segments. So there's the manufacturing the raw steel itself, which is covered under the 232, but the fence post itself is a fabricated product which is not covered under the 232. Sorry. I just wanted to clarify that.

CHAIR BUSIS: Thank you.

MR. SULEWSKI: Hi, this is Adam Sulewski, DHS. This question is for Mr. Wagner with the International Imaging Materials. You stated in your testimony that Chinese TTR suppliers are circumventing anti-dumping duty order. Having previously served in a previous role with anti-dumping countervailing duties, it's a subject that is very important to me.

How are adding TTR products to the proposed tariff list going to address this problem? Can you expand on that?

MR. WAGNER: Yes. Thanks for the question. They're circumventing the anti-dump. The base material for thermal transfer ribbon is polyester film. Polyester film coming into the United States is subject to anti-dumping duties up until 80 percent, therefore making it prohibitive for companies like ours to be able to access that film from China.

The Chinese companies, in order to penetrate the U.S. market and bring that film in, if you put any kind of material or coating on that raw material, so if you put a top coat that could be aqueous based or solvent based and a back coat on, then by putting those layers on the raw material, they can then bring the finished material, the TTR, into the United States duty-free. Does that help?

MS. PETTIS: This is Maureen Pettis from the Department of Labor. This is a question for Mr. Owens. Are you aware whether flatware is a sector covered under one of China's industrial policies?

MR. OWENS: I am not aware. I would doubt it because it's a sector that they dominate. They've gone from basically nothing to 70 percent of the market, with Vietnam representing basically the rest.

MS. PETTIS: You're talking about the

worldwide market?

MR. OWENS: The U.S. market based on import statistics.

MS. PETTIS: Thank you. I have also a quick question for Ms. Anderson. You had, your written testimony, you say that --

MR. BISHOP: Could you stick with your microphone, please? Thank you.

MS. PETTIS: I'm sorry. I'm trying to read. My glasses. You asked for a trade compliance enforcement on some particular goods, and I was wondering if it has to do with electrical safety issues, electronic safety issues that you're talking about in terms of compliance.

MS. ANDERSON: It's actually more of the emission standards that are provided by the displays.

MS. PETTIS: Okay. Thank you.

CHAIR BUSIS: Mr. Owens, the last panel we had some representative of retailers and they made the comment that increased tariffs on certain consumer goods would hurt retailers. How would you respond to that kind of concern of retailers about, for example, the tariffs on flatware?

MR. OWENS: Well, our business model is a factory-to-table business model, so we sort of circumvent traditional retail by going direct to the customer at competitive prices. I benchmark against all the major retailers. So if we were to receive some protection and be able to increase the amount that we're selling into the marketplace, build a bigger factor, your fixed overhead costs go down, my costs goes down, I could actually afford to lower the prices and gain market share. That would be at the expense of some brick and mortar stores, but to the American consumer it would be a pretty good deal.

MS. HOWE: This question is for Mr. Murrah. So how large is the U.S. market for China's aluminum wire exporters, and can they ship the same products to other markets?

MR. MURRAH: Well, the U.S. cable

market for the energy power grid specifically is well over a billion dollars, so a very significant market available to the Chinese. And while there are nuanced specifications around the globe, the cable products are portable such that with little modification they can be applied to other markets. So there are other homes for those products around the globe today that are coming into the United States.

CHAIR BUSIS: Could you also address the flipside of that question, which is if duties are imposed on Chinese wire what the effect would be on U.S. utilities and whether your company and other U.S. companies could pick up the demand or pick up the supply?

MR. MURRAH: Right. There's no question that the Chinese presence in the U.S. market has grown over the last several years. Southwire, in particular, we've been in business serving electric utilities since 1950. In fact, better than 50 percent of the conductor on the U.S. electric grid today is Southwire product.

And we and other manufacturers are in a position today to absolutely handle 100 percent of U.S. utility and municipality demand for aluminum cable products.

MR. BISHOP: We release this panel with our thanks, and we invite our next panel to come forward and be seated, please.

(Whereupon, the above-entitled matter went off the record at 10:39 a.m. and resumed at 10:41 a.m.)

MR. BISHOP: Would the room please come to order? Mr. Chairman, our first witness on this panel is Ambassador Karan Bhatia of General Electric Company. Mr. Ambassador, you have five minutes.

AMBASSADOR BHATIA: Good morning. GE is one of America's largest exporters and employers and a global leader in high tech manufacturing. We employ more than 100,000 workers in approximately 160 manufacturing facilities across the United States, supporting an additional 20,000 U.S. suppliers and approximately a million jobs in this country.

We export 60 percent of the products we make here to customers around the world. We've long supported free and fair trade with open access to markets here and abroad, and we support the administration's goal of promoting a level playing field for international trade.

We do hope the important issues at issue in this proceeding can be resolved without ultimately resorting to tariffs by either side. But should tariffs ultimately be imposed by the President, we urge that they be implemented in a manner consistent with the stated goals of the Section 301 investigation; namely, maintaining the United States' position as a world leader in high technology goods, strengthening the competitiveness of U.S. exports, and creating American jobs.

And toward that end, we urge the administration to apply the following three cross-cutting criteria to reviewing any request you may receive for product exclusions from the tariffs and in finalizing the list of products to which tariffs could be applied.

First, exclude inputs that are intra-company transfers from facilities in China that are owned and controlled by U.S. manufacturers. These owned-and-controlled U.S. investments in China are not the source of the problematic issues cited in the 301 report, and putting tariffs on the parts they produce will not hurt Chinese businesses or sway Chinese decision-makers. Rather, they hurt U.S. companies that own these facilities, as well as the U.S. workers and suppliers who rely on these parts from China to make world class products in the United States.

Second, exclude inputs that cannot be quickly replaced. For some specialized industrial parts, alternative suppliers outside China are simply not readily available due to global capacity constraints, rigorous quality control and compliance requirements for suppliers of critical infrastructure equipment, or, in some instances, the need for U.S. regulatory approvals.

Even with heavy tariff pressures, these inputs just cannot be readily moved to a new supplier outside China. Without alternative sourcing options, the imposition of tariffs would disrupt manufacturing operations and hand our foreign competitors a comparative advantage in both the U.S. and international markets.

And third, exclude inputs containing high U.S. content. A significant number of GE imports from China contain high U.S. content. For example, some of our aviation parts contain roughly 50 percent of content by value. And putting tariffs on parts like this would hurt both the U.S. companies that make those initial components, as well as the GE plants and workers who turn the imported parts into final products.

Our written comments detail which specific imports used by GE business units at the ten digit code level meet these exclusion criteria, but let me provide just one example of the harm this could cause workers and suppliers here.

Our healthcare business employs 6,000 works at Wisconsin facilities producing high tech medical equipment, such as MRI machines. While the vast majority of the parts that we use in our U.S. plants are made in the United States, we do import certain parts which contain high levels of U.S. content from our wholly-owned GE factories in China.

About 75 percent of the equipment we produce in the United States goes to U.S. hospitals and other facilities that face stringent cost containment pressures, and about 25 percent of those machines, or about $1.8 billion worth, are exported around the world, including to a growing market in China.

Due to our stringent quality and sterilization requirements, we estimate it would take well over a year to find new suppliers of these inputs outside China. And until new suppliers could be identified and meet the rigorous requirements to join our supplier network, the proposed 25 percent tariff would be an added cost that our international competitors just don't face.

Those are the kinds of imports that we propose be excluded from the proposed tariff list. To be clear, many of the proposed tariffs, 1,000 of the 1,300 targeted HTS lines, would impact GE in some way.

But our request for adjustments is limited to those few products, 34 in all, that should be removed because tariffs would impose significant and disproportionate costs on U.S. businesses, workers, and consumers without advancing, and even potentially undermining, the present goals pursuant to the 301 report.

Finally, we would urge that duty drawback be available for any product subject to the Section 301 tariffs. GE, like many U.S. manufacturers, competes around the world against tough global rivals. Duty drawback must be available to allow U.S. exporters to compete effectively in global markets.

That concludes my testimony. Thank you.

MR. BISHOP: Thank you, Ambassador. Our next witness is Jonathan Davis of SEMI. Mr. Davis, you have five minutes.

MR. DAVIS: Thank you very much, Mr. Chairman, members of the Committee. I'm Jonathan Davis, Global Vice President of Advocacy for SEMI.

I've been in the industry for about 30 years and I truly believe that semiconductors are critical and important to our economy and our way of life. Semiconductors are essentially the brains of all electronic systems, and they've made possible countless products on which we rely for business, communication, transportation, healthcare, entertainment, virtually all activities of modern human endeavor.

For 47 years, SEMI has served as the global electronics manufacturing industry association, with more than 2,000 member companies worldwide, including 400 American companies.

SEMI represents the full range of U.S. semiconductor technology companies, including chip designers, equipment makers, materials producers, and subcomponent suppliers. Our member companies are the foundation of the $1.5 trillion electronics industry. This vital supply chain supports 350,000 high skilled, high wage jobs across the United States.

Fundamentally, intellectual property is the cornerstone of our industry. SEMI members, on average, spend up to 15 percent -- over 15 percent in many cases -- of their revenue, or more than $20 billion annually, on R&D to remain competitive and enable ever-increasing innovation. Companies that provide semiconductor manufacturing technology support this activity through trade.

The industry relies on complex and expansive supply chains that traverse the globe. Components are made all around the world, brought together, assembled into subsystems, which are integrated into a larger tool which is used in the chip making process. Each of these steps could happen in a different country, but almost always with an American company's involvement. Because of this, the proposed tariffs could impact our U.S. members in an exponential fashion.

The United States is a global leader, producing more than 46 percent of the semiconductor equipment used by chip makers worldwide. Over the last 15 years, U.S. companies in this sector have exported, on average, more than 80 percent of what is produced domestically.

The hallmark of our industry is we make it here and we sell it abroad. It's because of this dynamic that the United States has long held a trade surplus in semiconductor equipment. In 2017, the U.S. surplus totaled $8.7 billion. And looking just at China, the United States had a $1.9 billion surplus last year, a figure that's more than tripled in the last five years and is continuing to grow.

By sector, our industry holds one of the largest trade surpluses. And with that in mind, we believe that the imposition of a 25 percent tariff would be extremely harmful. More than 100 total lines of the proposed tariff list directly impact the semiconductor supply chain, and I've included those in my written statement.

These tariff lines cover products that are critical components of the semiconductor manufacturing process effectively enabling this industry and many others that depend on it. We request these tariff lines be removed from the proposed Section 301 action.

If implemented as proposed, these tariffs would cost tens, if not hundreds, of millions of dollars annual in additional taxes and lost revenue owing to reduced exports. We believe that this will expand the U.S. deficit, threaten future growth, and not solve our legitimate and longstanding concerns with China.

We also worry about the impact of further tariffs with China. Certain chemicals produced by SEMI member companies were marked as part of China's retaliatory tariffs. We're very concerned that, should this situation escalate, more of our member companies products will be hit, stunting U.S. innovation and fundamentally altering the development of advanced technologies in their favor for the foreseeable future.

In closing, we support efforts to ensure that we compete on a level playing field, but we can't simply cut off our ability to tap into foreign markets. Trade is critically important to the continued success of the semiconductor industry.

These tariffs will inflict unintended damage, stifle American innovation, increase prices, threaten longstanding U.S. leadership in a critical technology capability, and put thousands of U.S. jobs at risk. Thank you, I look forward to answering your questions.

MR. BISHOP: Thank you, Mr. Davis.

Our next witness is John Pfeifer of Mercury Marine, a subsidiary of Brunswick Corporation. Mr. Pfeifer, you have five minutes.

MR. PFEIFER: Good morning, Mr. Chairman and members of the Committee. My name is John Pfeifer, I am the President of Mercury Marine, a Wisconsin-based global leader in the development and manufacture of marine propulsion systems for recreational and commercial applications.

Mercury has been making marine engines right here in America for over 75 years and exporting them around the world. Mercury Marine is the only manufacturer in America of four-stroke marine engines, the industry standard.

Through investments in American manufacturing, Mercury has grown and thrived. We employ over 4,800 skilled American workers and contribute billions of dollars every year to the U.S. economy. Since 2009, we have invested over $1.2 billion to increase the capacity and enhance the cutting edge technology of our United States facilities, earning over 280 new patents in the process.

While the vast majority of our products are U.S. made, we do assemble smaller, simpler 40-to-60 horsepower marine outboard engine models at our wholly-owned facility in Suzhou, China. While they are assembled in China, these engines use many critical parts made by our U.S. plants. And like our other products, our U.S. engineers and craftspeople design these engines right here in America.

These 40-to-60 horsepower marine engines serve the price-sensitive and very popular entry-level boating segment, providing power to a large number of recreation boaters, especially people involved in fishing and family recreational activities.

These engines are also essential to our global sales, where performance, value, and reliability are important. They provide a vital source of revenue to support Mercury's continued investments in this country.

Our imports of these engines enter under HTS subheading 8407.21.00. While the details are confidential and in our written comments, I can assure you publicly here today that a very high percentage -- a very high percentage -- of all imports of marine engines from China in this category are ours, Mercury Marine's, and are assembled from parts we design, engineer, and make in the United States.

Given the importance of these engines to our U.S. operations, our American workers, and U.S. consumers, it would be tremendously harmful if USTR were to impose a 25 percent tariff on these products.

In fact, we forecast that the tariffs would raise the average cost of a small recreational boat by nearly $2,000. This is a huge price increase. In fact, in the past, we've seen similar price jumps reduce demand by over 50 percent in a similar highly price-sensitive segment of the market.

The consequences would be severe and

the impact of the tariff would hit not only Mercury Marine sales, but those of U.S. boat builders, retailers, and service professionals and the tens of thousands of Americans employed by these industries.

At the same time, the tariffs are unlikely to have any meaningful impact on the Chinese government policies highlighted in USTR's Section 301 report.

Since its founding in 2003, Mercury's China operation has been wholly-owned and controlled by us, and has not been a target or a recipient of any of the policies outlined in the Section 301 report. We have not transferred or licensed our technology or know-how to anyone and have no intention of doing so.

The only beneficiaries of the tariffs would be Mercury Marine's competitors, who are based in Japan and manufacture elsewhere in Asia. These competitors make competing marine outboard engines in third countries. Their engines will not be subject to the Section 301 tariffs because their country of origin is not China. In fact, they can and will continue to source parts and components from China to use in their own engines with absolutely no impact from the Section 301 tariffs.

The only ones who will pay the price are Mercury Marine, its workers, and countless downstream companies and consumers who rely on our products. Tariffs on outboard marine engines from China would be a classic case of the U.S. shooting itself in the foot.

On behalf of my Mercury colleagues and the 15,000 employees of our parent company, Brunswick Corporation, we deeply appreciate the opportunity to present these facts. While Mercury Marine supports the policy 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 imports of marine outboard engines from China.

The tariffs will reduce U.S. jobs, hurt American consumers, and will not deter China. Furthermore, Mercury Marine is a U.S. company; this will hit us to the exclusion of everyone else. Mercury will carry the full weight and the full burden. Accordingly, USTR should remove outboard engines from the proposed Section 301 tariff list.

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

MR. BISHOP: Thank you, Mr. Pfeifer. Our next witness is Kyle Pitsor of the National Electrical Manufacturers Association. Mr. Pitsor, you have five minutes.

MR. PITSOR: Thank you. Mr. Chairman and members of the Section 301 Committee, thank you for the opportunity to provide the following remarks on behalf of the National Electrical Manufacturers Association on the proposed determination of action pursuant to Section 301 to address China's acts, policies, and practices related to technology transfer, intellectual property, and innovation.

My name is Kyle Pitsor and I serve as Vice President for Government Operations. NEMA represents nearly 350 electrical equipment and medical imagining manufacturers that account for 360,000 American jobs in more than 7,000 facilities across the United States. Our industry produces $106 billion in shipments per year, with $36 billion exported.

NEMA shares the concerns of the Office of the U.S. Trade Representative regarding China's industrial policies and intellectual property practices. The outcomes of discussions between the U.S. and China should assure a more level playing field through the application of clear, binding, and enforceable trade rules and compliance with international norms of intellectual property protection.

While some NEMA member companies manufacture their own products in their own factories in China, many others source finished goods as well as components from contractual partners in China. In particular, many companies source components from China into the U.S. to support their U.S. manufacturing operations.

Placing a 25 percent tariff on over 100 product types within or adjacent to NEMA's product scope will not help support, and could materially injure, the global competitiveness of our industries, their manufacturing operations, and their U.S. employment base.

We've estimated that the 2017 value of China's shipments on the NEMA member list was approximately $9 billion, slightly less than one-fifth of the entire $50 billion of imports targeted by the proposals.

Writ large, if 25 percent tariffs were to be implemented as proposed, they would represent a tax increase on U.S. electro-industry companies and their customers of at least $2.25 billion.

NEMA member products include equipment used widely in industrial, commercial, and residential environments. For example, programmable logic controllers that run factory lines in manufacturing facilities, certain types of electric motors, controls that enable the more energy efficient use of motors, light emitting diodes that are used to manufacture energy efficient lightbulbs and light fixtures, traffic signaling and control equipment, transformers and switch gear used in the electrical grid, electric wiring cable, residential thermostats, and medical imaging technologies, including CT, MRI, ultrasound, and X-ray products.

There's a list of targeted products in my testimony and also in our written comments that we filed on May 11.

Should the administration decide to proceed with the application of tariffs in this matter, NEMA recommends any tariffs be applied for as short a time as possible as a precursor to a negotiated outcome that addresses the Chinese practices outlined in the 301 report.

NEMA also urges the administration to narrow the scope of the proposed tariff list so it does not do disproportionate harm to U.S. production manufacturers, including the exclusion from the tariff list of, number one, inputs for which non-Chinese substitutes are not readily available or able to meet U.S. manufacturer or federal standards. Secondly, inputs that come from wholly-owned U.S. facilities within China, since those reflect regular commercial decisions rather than China's efforts to force technology transfer, and the impact would disproportionately hurt U.S. rather than Chinese business. And thirdly, inputs from China that have a high percentage of U.S. content.

In addition, inasmuch as NEMA member companies export roughly one-third of their U.S. production, it is critical that duty drawback be available to exporters for any Section 301 tariffs so those tariffs do not undermine U.S. product competitiveness in the global market and do not harm the U.S. manufacturing base and their employment.

In conclusion, the imposition of

broad-based tariffs is accompanied by collateral damage up and down the global supply chain that is better avoided. If tariffs are perceived by the administration to be necessary, we would request that the use of tariffs be on a much narrower scope of products and very short-lived.

We look forward to further dialogue on these proposals and urge the administration to consider and pursue alternative measures to bring about change to Beijing's strategic and entrenched industrial and IP policies and to establish free and fair trade. Thank you.

MR. BISHOP: Thank you, Mr. Pitsor. Our next witness is Dylan Reed of Advanced Energy Economy. Mr. Reed, you have five minutes.

MR. REED: Thank you to the members of the Committee today. My name is Dylan Reed and I represent Advanced Energy Economy. AEE and its state partner organizations represent more than a thousand companies that span the advanced energy industry and its value chains. Altogether, we represent over 50 different advanced energy technologies and services, including energy efficiency, natural gas, renewable energy, energy storage, electric vehicles, fuel cells, and nuclear power.

As a major business voice in the United States, we speak today to express concern over the proposed tariffs' impact on various advanced energy technologies.

The advanced energy industry represents a $200 billion industry that supports more than three million workers across the country. The industry supports innovation in the domestic energy resource mix and lower costs for American businesses and households, as well as a more reliable and affordable electric grid for all Americans.

Advanced energy technologies and services create and maintain a higher performing energy system, one that is reliable, resilient, diverse, and cost effective, while also improving the availability and quality of customer-facing services.

AEE commends the administration's efforts to negotiate with China around unfair trade practices. The advanced energy industry supports a fair trade relationship between the U.S. and China, allowing all industries, including the advanced energy industry, to thrive to the benefit of all Americans.

However, tariffs on advanced energy technologies will adversely impact our industry and the U.S. economy. Given the broad spectrum of technologies that AEE represents, we have concern about the significant impacts that tariffs can have on the energy system.

The proposed tariffs include numerous products that either directly or indirectly impact the advanced energy industry, including, but not limited to, thermostats, batteries, electric vehicles, nuclear reactors, gas turbines, wind-powered electric generating sets, A/C generators of an output exceeding 750 KVA, and building management systems. Many of our members and technologies would be negatively impacted by the imposition of tariffs on essential elements of their supply chain.

AEE's written comments discuss our concerns in detail, but today, I want to highlight two examples. The first is smart thermostats. The U.S. leads in this sector. Chinese-based companies do not have a significant U.S. market presence and tariffs will simply serve to hurt the U.S. industry, consumers, and utilities.

The proposed tariffs would put significant upward pressure on prices for this important consumer product and discourage their adoption. This would hurt the U.S. companies that lead this segment.

It would also hurt the families and businesses that use smart thermostats to control their energy consumption and reduce their monthly energy bills. To the extent consumers are less able to afford energy efficient smart thermostats, it would also impair our nation's energy productivity.

Further, the design and technology in smart thermostats is developed in the United States by highly skilled workers. The tariffs would discourage further innovation in the U.S. technology development of thermostats. It would also hurt electric utilities, who in part through programs are encouraging customers to install these thermostats.

Lastly, tariffs would hurt the thousands of retailers, as well as small and medium sized customers and their contractors who sell and install these thermostats.

My second example involves the impact of tariffs on domestic manufacturing of electric vehicles, which would be subject to additional duties here. The imposition of duties on products essential to domestic EV manufacturing would negatively impact consumers of EVs, including municipalities, harm expansion of domestic manufacturing, and undermine existing federally supported programs for the purchase of EVs.

Finally, the threat of additional retaliatory measures to combat unfair international trade practices has introduced new elements of risk into markets related to the advanced energy industry. AEE respectfully expresses concern today that future tariffs could include a broader set of products, which would only introduce more risk and negative economic impacts to the industry.

We respectfully suggest that the imposition of duties on advanced energy technologies, such as smart thermostats, and parts and products essential to domestic manufacturing of electric vehicles, will not be effective towards achieving the administration's goals. Instead, we encourage the administration to focus its efforts on the elimination of acts, policies, and practices that are subject to the 301 investigation.

In conclusion, we support the effort of the administration to renegotiate trade policies toward a fair trade relationship, but recommend that advanced energy technologies that support domestic, reliable, and affordable energy be removed from the list of products in the final tariffs. We appreciate your consideration of our perspective in this case. Thank you.

MR. BISHOP: Thank you, Mr. Reed. Our next witness is Evi Christou of Dana Corporation. Ms. Christou, you have five minutes.

MS. CHRISTOU: Good morning. My name is Evi Christou, counsel for Dana Incorporated, and I am here today to provide the statement of Joseph Heckendorn, senior counsel for Dana. Mr. Heckendorn's appearance was rescheduled for today, rather than May 15th, and he was unable to appear on this rescheduled date, so I will be providing his statement.

Dana was founded in 1904 and is headquartered in Maumee, Ohio. It is a global provider of high technology drive-line products, including axles, drive shafts, and transmissions, and sealing and thermal management products produced in the United States.

Dana's customer base includes virtually every major vehicle manufacturer in the global light vehicle, medium, and heavy vehicle, and off-highway markets, as well as customers in industrial and stationary equipment applications.

Dana respectfully requests that the products it imports from China not be subject to the additional duties proposed by USTR. Dana's comments filed May 11th provide more detail into the identity of these products and the reasons for Dana's position.

Imposing duties on the products that Dana imports from China would not be practicable or effective to eliminate China's unreasonable and discriminatory acts, policies, and practices identified by USTR in its report in this investigation.

And companies in China that supply Dana are not the high tech product producers that were identified in USTR's report and the products they produce were not the products identified in USTR's report. These suppliers and the products they produce simply are not among those that benefit from the Chinese government's acts, policies, or practices identified by USTR as being unreasonable or discriminatory and that burden or restrict U.S. commerce.

However, imposing additional duties on the products Dana imports from China would cause disproportionate economic harm to U.S. interests, including Dana, its customers, and other businesses and consumers.

Imposing duties on the products Dana imports from China will do substantial harm to Dana. If prices on imported products rise 25 percent, or if Dana is not able to obtain the products that it needs due to additional duties being imposed, it will be unable to produce the downstream products that use the imported inputs, and, consequently, will be required to discontinue its business entirely or shift its production of its downstream products to another country to import it. This would result in a reduction of Dana's labor force in the United

States associated with its current U.S. production.

Although, through considerable time and effort, Dana is generally able to obtain a domestic source for the component it needs, imposing trade barriers on imported components would require Dana to reorient its source of supply, particularly if it uses a single source of supply for the particular component, which is often the case. This would cause significant harm to Dana, because the automotive industry requires certification of suppliers and the process for gaining certification can take as long as 18 months. Obviously, Dana will be significantly handicapped if it must wait up to 18 months to obtain an alternative source of supply for its components.

If Dana experiences a significant or prolonged shortage, delay, or disruption of critical components from any of its suppliers, particularly those who are sole sources, and is unable to timely procure components from U.S.

producers, it would be unable to meet its production schedules for some of its key products, and unable to ship such products to its customers in a timely fashion.

This would adversely affect Dana's sales, profitability, and customer relations, and it would suffer operating inefficiencies. Due to these certification requirements in the auto industry, Dana requests that any measures imposed as a result of this investigation be delayed for 18 months to take into account purchases within the automotive industry.

Trade barriers imposed as a result of this investigation will restrain supply, thereby also raising component prices. Such a result could adversely affect Dana if it is unable to recover portions of commodity costs from its customers. The cost of Dana's products may be significantly impacted by changes in component prices. An increase in duties will increase the prices Dana pays for the imported component parts. Such rising prices would interfere with

Dana's ability to compete against foreign competitors of the products it produces in the United States.

The additional duties will either put a cost price squeeze on Dana or Dana will need to pass along the cost of the additional duties to its customers. Therefore, the duties also will harm Dana's customers, who would need to pay a higher price for the product it supplies to them for their downstream products.

The duties could either drive Dana or its customers to move production offshore or cause Dana or its customers to lose business to lower priced imports, especially from countries that are not imposing additional 25 percent duties on input items.

Thank you for your attention to these issues. Dana submitted comments on May 11 that more fully describe Dana's position on the investigation. If you have any questions, I would be happy to take them.

MR. BISHOP: Thank you, Ms. Christou.

Our final witness on this panel is Mark Maroon of Maroon Group, LLC. Mr. Maroon, you have five minutes.

MR. MAROON: Thank you. Good morning. Thank you for holding this hearing and allowing me to testify before the Section 301 Committee.

My name is Mark Maroon, Chief Technology Officer of Maroon Group, LLC. Briefly, Maroon Group is a distributor of specialty chemicals and ingredients, based in Avon, Ohio. Our company is comprised of several regional operations focused on specific markets and geographies. Maroon Group services customers across multiple industries, including plastics, paint, coatings, personal care, sealants, adhesives, and other related industries.

Let me first state that Maroon Group supports the overall findings of the Section 301 investigation and the affirmative determinations. However, I am here to respectfully ask that you reconsider the placement of a key product necessary to our company and to our customers that is on the proposed list of Chinese products on which there will be a tariff increase.

Currently, the list includes products covered under Harmonized Tariff Schedule 2932.99.61. Maroon Group's written submission of May 11th provides more detail on this HTS category and the products that fall under its description.

For my company's purposes, the primary product we sell under this category is a base clarifier for polypropylene used in a wide variety of application, including packaging for consumer products, plastic parts for various industries, including the automotive industry, medical devices, and textiles.

Maroon Group is an importer and distributor of sorbitol-based clarifier for polypropylene, whose source is only located in China. As you may know, there already exists a 6.5 percent duty on products covered by this HTS category.

Adding an additional duty of 25

percent, thus bringing the total rate to over 31 percent, would effectively wipe out Maroon's ability to sell and service its products in the U.S. market. Our company would not be able to deliver on existing contractual agreement with certain key customers.

While we have been successful in adapting and adjusting to the current duty rate, the additional 25 percent would cripple our future business arrangements and opportunities for growth. Further, Maroon Group would suffer irreparable reputational harm and almost immediately lose between 5 and 10 million dollars in annual revenue.

There is only one domestic source available for us for the base clarifier we obtain from China. However, it is our direct competitor and, therefore, not an option. If the tariff is implemented on this HTS category, Maroon Group would effectively be knocked out of the U.S. market.

This fact highlights another negative

impact should this HTS category not be removed from the proposed list. This additional duty will directly harm U.S. consumers and producers who rely on base clarifiers in their manufacturing process. By implementing a 25 percent duty, the U.S. government will essentially cut off all competitive sources and remove from the domestic market a quality base clarifier offered at a consistent and competitive price, and assurance of continuity of supply, as domestic production is limited.

As a result, implementing a tariff of 25 percent on this HTS category will eliminate all competition in the U.S. market and drive prices up for base clarifiers and its end products.

Again, while Maroon Group agrees that China's unfair practices must cease, implementing tariffs on this category will not achieve the desired outcome the President seeks.

Imports from China of products under this category are not excessive. In fact, in

2017, they were approximately $10.3 million. This is a relatively modest number when the President is seeking retaliatory tariffs of 50 billion U.S. dollars, and it is likely to have no meaningful effect or impact on China's behavior.

But this $10 million in imports is critical to Maroon Group and its customers. We respectfully ask that the Section 301 Committee remove this category from their proposed tariff list. Thank you for your time today. I offer a written copy of my oral testimony to the Committee for your official record.

MR. BISHOP: Thank you, Mr. Maroon. Mr. Chairman, that concludes direct testimony from this panel.

CHAIR BUSIS: Thank you, Mr. Bishop. Throughout this three-day hearing, the members of the Section 301 Committee sitting on the particular panel will change. For example, this afternoon, the hearing will be chaired by other members of the USTR Office of General Counsel.

At this time, I would like the current

composition of the Committee to introduce themselves, starting with Adam.

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

MS. PETTIS: Hello. Maureen Pettis, Department of Labor, Bureau of International Labor Affairs.

MR. BLAHA: Chris Blaha, Department of Commerce, International Trade Administration.

CHAIR BUSIS: William Busis, USTR, Office of General Counsel.

MS. HOWE: Julia Howe, USTR, China Office.

MR. SECOR: Peter Secor, State Department, Economic Bureau.

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

MR. ABAJIAN: Alexander Abajian, Council of Economic Advisors.

CHAIR BUSIS: And, Alexander, you have the first question.

MR. ABAJIAN: Yes. The first questions is for Ambassador Bhatia. You testified about intra-company transfers and specialized parts with effect to GE's supply chains for aviation parts and complex medical equipment. I was hoping you could elaborate on the problems GE might face if its supply chains with respect to these goods were forced to change.

AMBASSADOR BHATIA: Yeah, thank you. Look, we have very carefully constructed supply chains for both aviation -- I think -- was the other one -- business you mentioned, specifically of interest, was healthcare?

MR. ABAJIAN: Medical equipment, yes.

AMBASSADOR BHATIA: Medical equipment, yes, what we call our healthcare business.

So, both are highly complicated products. Both are regulated products, here and abroad. Both are products that are fundamentally sort of critical infrastructure products; lives depend upon these products operating, operating successfully. And so we take an enormous amount of care in how we source and where we -- how we construct these products.

So, the supply chains that we've developed, often under supervision from the FDA, under supervision from the FAA, will involve careful scrutiny of the individual facilities.

Now, a lot of the facilities that we have in the United States and abroad, including in China, are wholly-owned. So, we have four facilities on the healthcare side, we've got one facility on the aviation side in China.

We work extremely closely with the teams in-country to make sure that the way they produce, what they produce, meets those regulatory and other standards. We bring them over, we incorporate them into our products.

They actually, as I mentioned, are a relatively small percentage of the overall value of the product being exported, but they are critical components. They are critical components.

And so, should the tariffs be applied in this market, we would either be forced to swallow the additional 25 percent cost, which in these markets can be not insignificant in terms of determining your competitiveness overall, or we will be forced to move production, final production and assembly, to other markets around the world.

We have facilities where we do make end products in other countries, so we would create jobs or support jobs in other countries rather than the United States. Or, in due course, if conceivable, we would move the production out of China to third countries. But those -- sometimes those can be lengthy and difficult processes. So, I don't know if that answers your question.

MR. ABAJIAN: Yes, that does. And a follow-up to that would be, in terms of your written filing, are there more granular data available for which of those products and what percentage of maybe the value of those products, the final products that are manufactured in the United States that would be comprised of those HTS headers affected by the 301 sanctions?

AMBASSADOR BHATIA: So, we certainly have more granular data, including the listing of all the HTS codes we think are particularly affected by this.

In terms of product-by-product the percentage of the sourcing that is U.S. rather than foreign, I don't think that's in our submitted data. We could look into that. It obviously varies a lot. And then there will be individual HTS codes that will have various subcomponents coming over that will fit into multiple pieces.

As it is, as I mentioned, more than 1,000 of the lines, of the 1,300 lines, hit us. So, that's a lot to be able to come back to you with, but I would be happy to try and supply you with individual information about, say, the 34 and the sourcing of those key products, what percentage is U.S. versus Chinese.

MR. ABAJIAN: And just a further addition to that would be what percentage of those 34 critical products and how long each would take if you were to source them from a non-China country.

AMBASSADOR BHATIA: From a non-Chinese, yes. It would vary.

MR. ABAJIAN: Thank you.

CHAIR BUSIS: To clarify, I think, I'm not sure if this is the same question Alexander asked, but, so, Mr. Pfeifer, for the engines mentioned that, for the tariff code, he mentioned it was basically all, that particular tariff code was all made by the Brunswick factory in China.

Is that the same question you asked for the tariff lines, how much of each line is your affiliates in China?

MR. ABAJIAN: No, rather what percentage -- is there a substitute available that would not be sourced from China.

CHAIR BUSIS: Okay, so it's a different question. But, if you, I don't know --

obviously, you have 1,000 lines, there's only so much you can do, but I would be curious to know, get a sense of whether the lines that you're requesting to be removed, whether the imports from those lines reflect only GE production or other producers in China that are not affiliated with GE.

AMBASSADOR BHATIA: For our imports, you mean?

CHAIR BUSIS: Right, for the lines you suggest. I mean, if a line is like 25-64, is that only GE production or are there other producers selling that?

AMBASSADOR BHATIA: There's a combination of the two, obviously, and it varies line by line. There were some of these that 90-plus percent would be intra-company, GE-owned transfers. There would be some where the number of third-party, either JV or third-party, separate, percentages are higher. We can certainly do that for the 34 categories and get that back to you. So, happy to do that.

CHAIR BUSIS: Thank you. And for intra-company, are the companies in China, are these wholly-owned affiliates or are they joint ventures? Do you have a sense of that?

AMBASSADOR BHATIA: So, the five that I mentioned, which are the two aviation, we do have some in the power and other spaces, but just to take those two as examples, there are four on the healthcare side, three of those four are 100 percent owned and controlled, one is 90 percent owned, but wholly controlled by us; there's a minority Chinese partner.

And then the aviation side is 100 percent controlled by us. Sorry, 100 percent owned and controlled by us.

CHAIR BUSIS: Sarah, did you have some questions?

MS. BONNER: Thanks. This question is for Mr. Davis. You testified that the U.S. is a global leader in the semiconductor manufacturing technology industry. You also have identified 100 tariff lines. I was wondering if you can share any views on how the imposition of tariffs on those lines might disproportionately impact U.S. small businesses.

MR. DAVIS: Thanks for the question. Like the outboard motor companies, the United States' primary competitor is Japan. So, anything that restrains or curtails the U.S. companies' supply chains is only going to benefit the Japanese and probably not hurt the Chinese.

Really, semiconductor manufacturing equipment, everyone here is a champion of their industry, so maybe this is over the top, but it's really the highest of the high tech. It's the most sophisticated in terms of physics, engineering, software, chemistry, all bundled into a product that has tens of thousands of individual components.

And so U.S. semiconductor manufacturing equipment companies have a long tail, a very complex supply chain. Many of them are small- and medium-sized companies and they would most certainly be impacted.

MS. HOWE: My question is for John Pfeifer. You mentioned that engines assembled in your plant in Suzhou, China use parts made in the United States. To the extent that you can, what is the percentage of the U.S. component in the engine?

MR. PFEIFER: So, I actually don't have the exact dollar figure percentage with me today, but I'll give you an indication of what we manufacture in the United States and ship to China for assembly.

They're all critical components, crank shafts, drive shafts, gear cases, gear assembly sets, some of the sophisticated electronic controls that go into how you control the engine, that's what we manufacture in the U.S.

In China, we of course take advantage of the supply chain that's fairly developed, and that's one of the reasons that it makes sense for us to have that assembly plant there. So, that would be things like the cowling, which is the structural plastic that goes over the engine to give it the right appearance. It would be some of the electronic wire harnesses. It would be some hoses and products like that that go into the assembly operation.

MS. HOWE: If you can send in your written rebuttal more information about the breakdown --

MR. PFEIFER: The percentage, yeah.

MS. HOWE: Yeah, of the total product.

MS. PETTIS: I have a follow-up question for Mr. Pfeifer

MR. BISHOP: Could you identify yourself, please?

MS. PETTIS: I'm sorry. This is Maureen Pettis, Department of Labor. You indicated that these inputs are made in the United States and shipped over to China. Can you give any indication of the kind of jobs, the number of people that would be involved?

MR. PFEIFER: Yes, so we have 3,200 on our main campus in Fond du Lac, Wisconsin. That's where most of these components are manufactured. They are manufactured both in our foundries, where we cast aluminum, and they're also employed in our machining operations where we machine steel, crank shaft, drive shaft products.

So, about 20 percent of the U.S. market, to give you an example, is these 40-to-60 horsepower entry level engines. So, if you take the people that are in those plants, you're talking about a few hundred people who are currently working on production of those components. And those are all high paying, high skilled jobs, machinists, people with vocational skill sets that are required to make those products.

MS. PETTIS: Okay, thank you very much.

CHAIR BUSIS: Chris?

MR. BLAHA: Thank you. I have a question for Mr. Maroon from Maroon Group. You mentioned, if I understood correctly, that the only imports in this came from China and there was one other domestic producer, aside from, I guess, your sourcing.

MR. MAROON: We're not a producer, we're a distribution company, to be clear.

MR. BLAHA: I'm sorry. There's one domestic U.S. producer. There's you distributing in the United States. And the only imports of this come from China. Is that accurate?

MR. MAROON: The only imports that our company can identify via import statistics came from China.

MR. BLAHA: Okay. Thank you. And so I guess my question is, do you know to what extent -- or to what extent can you say whether or not production of this product could be ramped up or increased? Are there significant entry barriers or anything like that, either to U.S. domestic production or to production outside of China in foreign countries?

MR. MAROON: I wouldn't tell you that, from the best of my scientific knowledge, that the barrier to entry is that great in terms of money or time.

If I was to put a value on each, like most chemical manufacturing facilities, you'd probably looking at somewhere, for a greenfield operation, 12 months, as far as time. And maybe somewhere between, for reactors and the like, turnkey maybe $25-to-40 million range, to construct a line.

MR. BLAHA: Thank you. And I guess, to the extent that you know, is China really the -- U.S. imports, as far as you know, come from China. Is China really the global supplier in this around the world or --

MR. MAROON: No, our one U.S. competitor, manufacturer, producer is the market leader, if you will. They are the primary producer globally.

MR. BLAHA: Okay. Thank you very much.

CHAIR BUSIS: And could you let us -- what is the feedstock for the sorbitol-based clarifier that you're mentioning? I'll be more general than specific, is it a petroleum-based feedstock that the United States would have a pretty good cost basis for, or something that China has indigenous --

MR. MAROON: No advantage for China over the United States for the intermediate chemicals needed to make the DMDBS clarifier itself. However, since you mentioned it, the U.S. is the leading producer in the world of polyolefins, specifically, in this case, polypropylene. We are a net-exporter, right? And we will continue to be that going forward with all the new naphtha crackers that are opening based on shale gas exploration. So, we'll continue to grow.

We will likely be, at least the next decade, as a net-exporter. And this material that I'm speaking of today is critical to the production of certain grades of that polypropylene for those different industries.

CHAIR BUSIS: Ms. Christou, for Dana, you mentioned that you source some, I guess, intermediate parts of your axles and drive shafts and transmissions from China. Could you describe the companies within China you buy from? Are they affiliated with Dana, are they international corporations, Chinese corporations?

MS. CHRISTOU: I'm unaware at this time about the exact nature of, I believe you asked about the suppliers, the intermediaries, but I do know that Dana focuses on condensing its sources and really just basing its sources on total value, on price and quality. But I do think that that's something we can definitely more address further in our rebuttal comments.

CHAIR BUSIS: And it would be helpful if you could in your rebuttal comments also address whether, presumably Dana has some competitors in the transmission and drive shafts field, whether they also are relying on the same Chinese products.

MS. CHRISTOU: Sure.

MR. BLAHA: I'll also ask you a similar question, for Ms. Christou. You mentioned, I think, product certification as a specific barrier to trying to shift the supply chain away. Is it really kind of a -- does that certification currently only apply to Chinese supply structures right now? Or are there other suppliers that also supply to Dana outside of China that also would have such certification?

MS. CHRISTOU: My understanding is that it's not just limited to Chinese suppliers and that it's an overall certification process. And so that was the reason for that 18-month certification timeline, that that matched up with the time that we had requested for there to be sort of that imposition. If there's that time period, that's sort of where we got that number from. So, not just limited to China.

CHAIR BUSIS: Adam, you have the next question.

MR. SULEWSKI: Hi. Adam Sulewski with DHS. This question is for Mr. Reed with Advanced Energy Economy. In your testimony, you had used automatic thermostat and electric vehicles as examples. Can you elaborate on the effects of the proposed tariffs, what that would have on U.S. consumer prices, and do you have an estimate on the potential price increase?

MR. REED: Yes. So, I can use smart thermostats as the example there. We find it very improbable that customers would not be able to -- or would be harmed by the tariffs here. Most of the companies that use the U.S. market for smart thermostats assemble their products in China and have no alternative supplier for that.

So, ultimately, what would happen should these tariffs go forward is that would either put the tariff solely on consumers, or that would ultimately mean that consumers would not be able to afford the product altogether.

Right now, as a very high technology premium product, this is already still entering, although in millions of households, still entering the market and a premium product for consumers. So, adding any additional cost on that makes it much more difficult for them to afford it.

CHAIR BUSIS: So, are you saying that the United States or other sources could not produce these thermostats, is that --

MR. REED: As of right now, the companies that we've spoken to, the vast majority of them supply solely from China, yes.

CHAIR BUSIS: Right, but the question is could they supply from other sources.

MR. REED: To my understanding, there's only one other country that supplies smart thermostats on this. So I suppose they could, but in terms of shifting supply chain and how much that would cost, that certainly would have to factor into that.

CHAIR BUSIS: Okay.

MR. BLAHA: Just a follow-up again on the smart thermostats. I presume there are other components, perhaps software or something else, that actually goes along in the eventual installation of this. Do you have a sense of what share the actual good that comes from China is in the overall installation cost?

MR. REED: I do not, but we can certainly put that within the rebuttal comments.

MR. BLAHA: Thank you. And this question is for Mr. Pitsor from NEMA. You mentioned or you suggested three criteria to narrow the scope of the proposed product list, that substitutes are unavailable, that the imports come from U.S.-owned facilities, or they have a high percentage of U.S. content.

I think we've heard testimony and seen written submissions regarding some specific examples of these types of things. But could you elaborate on how the 301 Committee might evaluate or operationalize or use these criteria to actually examine the product list generally?

MR. PITSOR: Thank you for the question. With respect to the three criteria we suggested in terms of looking at to apply, there would have to be some work with the customs service to identify the products that are coming from wholly-owned U.S. companies' facilities from

China that are being imported in the various HTS categories to narrow those to be exempted or excluded from the 301 tariffs.

Likewise, high content U.S. product components from the U.S. that go to China and then are further manufactured and then come back, to be able to identify that trade flow and, obviously, the application of duty drawback there might be a way to address that.

It would be a complex undertaking, that's for sure, because of the nature of the component and the sourcing that does take place in the electrical industry.

MR. BLAHA: Do you have some sense, in the electrical industry, of data that might not -- not necessarily customs data, but how much U.S. value is in electrical components that come back from China or how many factories or what proportion is actually U.S. wholly-owned?

MR. PITSOR: Well, as there's 100 different categories in the proposed tariff list here that we'd be speaking of, it's going to vary based on different product categories.

And then smaller companies might have less U.S. content or more content. It's going to vary, again, by the relationships some of the smaller manufacturers have with larger manufacturers. There's a lot of inter-company sales of components, resisters and capacitors, some of the electronic pieces might be sourced to multiple manufacturers under a contract relationship.

We could look to see if there's any data from our side that would indicate what that value would be.

MR. BLAHA: Thank you.

CHAIR BUSIS: Mr. Bishop, I think we've concluded with this panel. And maybe we could break for approximately an hour for lunch. It's 11:40 on that clock, maybe we could break until, say, 12:45? That's approximately an hour, right?

MR. BISHOP: Okay. We stand in recess until 12:45.

(Whereupon, the above-entitled matter went off the record at 11:40 a.m. and resumed at 12:46 p.m.)

CHAIR ALLEN: Good afternoon. Welcome to this afternoon's session. Before we begin the panel, I'd like to go ahead and ask everyone here to introduce themselves. So if we could go around the room and do so, please.

MR. SULEWSKI: Good afternoon. Adam Sulewski, U.S. Department of Homeland Security, Office of Policy, Trade Policy.

MS. PETTIS: Hello. I'm Maureen Pettis. I work for the Department of Labor in the Bureau of International Labor Affairs.

MS. PSILLOS: Kate Psillos, Department of Commerce, the International Trade Administration, Office of Trade Negotiations and Analysis.

CHAIR ALLEN: Brooks Allen, USTR, Office of General Counsel.

MR. WINELAND: Tim Wineland, USTR's China office.

MR. MOORE: Dewey Moore, Department of State, Office of Intellectual Property Enforcement.

CHAIR ALLEN: Mr. Bishop, we are ready for the panel.

MR. BISHOP: Our first witness on this panel is John Campbell of Ball Corporation and Ball Metal Beverage Container Corporation. Mr. Campbell, you have five minutes.

MR. CAMPBELL: Thank you. And thank you for the opportunity to appear before you this afternoon. My name is John Campbell, and I'm Vice President of Government Relations for Ball Corporation. Ball Corporation is a Fortune 500 metal packaging manufacturing company with a rich 138-year history of providing well-paying jobs in communities across our country. Today, we are the largest producer of aluminum beverage cans in the world. We employ 18,000 people globally, of which 8,000 are here in the U.S. We operate facilities in 25 states, and each year Ball produces approximately 100 billion metal beverage cans and approximately 3.7 billion metal food and aerosol cans.

We commend the administration for taking steps to re-balance the U.S.-China trade relationship. However, we respectfully request that the aluminum and steel products we use to make beverage, food, and aerosol cans be removed from the list of proposed products under consideration for tariffs.

Today, we import from China three to five percent of our template steel and two to four percent of the aluminum can sheet we use. Although these are small percentages, they represent an important component of our overall metal supply. Ball Corporation has long partnered with the U.S. steel and aluminum producers and relied upon domestically-sourced template steel and aluminum can sheet. We look forward to continuing and strengthening those partnerships.

The advantages of domestic production in terms of lead time, freight and storage costs, and currency risk are significant, and having a reliable U.S. supply enable us to remain flexible and responsive to our customers' current needs. Domestic production of template steel is trending downward. The availability and reliability of domestically-produced template have declined. Significant U.S. capacity has been permanently closed while remaining production sites have failed to keep pace with demand.

According to the International Trade Commission, overall U.S. production of template steel fell by 25 percent from 2014 to 2016. Overall U.S. production was 9.5 percent lower during the period January to September 2017 when compared to the same period in 2016.

Today, we source a majority of our aluminum can sheet domestically. However, we are unlikely to sustain a large percentage of the domestic purchase in the future as aluminum manufacturers convert from producing can sheet to applications such as auto body sheet for the automotive market. The downward trend of domestically-produced can sheet is unlikely to be reversed in the near term.

In 2019, the domestic production of can sheet will not meet our North America demand requirements. By 2020, we expect domestic can sheet production to have declined by 30 percent while demand remains flat.

Our limited Chinese imports helps us respond to domestic supply disruptions which occur almost annually. Without the opportunity to purchase metal from foreign suppliers, we risk becoming less competitive against other substrates that do not face similar tariffs.

Thank you for this opportunity to testify.

MR. BISHOP: Thank you, Mr. Campbell. Our next witness is Charles Gray of Teradyne, Incorporated. Mr. Gray, you have five minutes.

MR. C. GRAY: Thank you for the opportunity to present the views of my company, Teradyne. We are a leading U.S.-based supplier of automated test equipment, and I am the company's general counsel.

We are concerned about inclusion of our products, semi-conductor test systems, instruments, and printed circuit boards, on the proposed Section 301 tariffs list. Inclusion of these tariff lines, which are specifically identified in our written submission, would first adversely impact us, a U.S. company, our U.S. customers, in the U.S. semi-conductor industry. Second, it would advantage our Japanese competitor. And, third, it would not advance the goal of influencing China's policies relating to technology transfer.

As I mentioned, we are an American company founded almost 60 years ago and still headquartered in Massachusetts. We employ 4500 people worldwide and over 1700 in the United States. Our equipment is used to test semiconductors and enables our customers to ensure the consistent performance and quality of their products.

We do our design and engineering in

the United States. We use a global contract manufacturer who manufacturers our flex and J750 families of test systems in its facility in China. Most of our suppliers and most of our customers' manufacturing facilities are located in Asia.

Our technology and engineering expertise jobs are in the United States. We have not transferred our technology or intellectual property to any Chinese company or to our global contract manufacturer with its facility in China.

We believe the administration should not include our products in the Section 301 tariffs for three reasons. First, these tariffs would harm us, our U.S. customers, in, as I mentioned, the U.S. semi-conductor industry. Tariffs on our test systems would, of course, negatively impact us through increased pricing for products and decreased competition for test equipment, but also it would impact the U.S. semiconductor customers. Our U.S. customers for these systems include Qualcomm, Texas

Instruments, ON Semiconductor, Western Digital, and many others.

Second, the principle effect of tariffs on our test system equipment would be to distort the market in favor of a non-U.S. competitor. The main beneficiary would be a Japanese company who manufactures its products in Japan and, thus, would not be affected by the 301 tariffs. Ironically, this Japanese competitor which would benefit from the tariffs has licensed its technology to a Chinese joint venture while Teradyne has not.

Third, the proposed tariffs on our test system equipment would not advance the administration's goal of encouraging China to change its technology transfer policies. No Chinese company would be adversely impacted by these tariffs because no Chinese company competes in the U.S. market for the test systems covered by the tariffs. If anything, the proposed tariffs could indirectly benefit Chinese policies through favoring the Japanese competitor who, again, has contributed its technology to a government-funded Chinese joint venture.

To conclude, these proposed tariffs would harm U.S. interest while not impacting Chinese practices. More broadly, these tariffs could cause harm to U.S. leadership in semiconductor testing equipment at a time the U.S. government is focused on preserving and enhancing U.S. leadership in the semiconductor industry.

Accordingly, we respectfully request the relevant tariff lines be removed from the proposed Section 301 action. Thank you.

MR. BISHOP: Thank you, Mr. Gray. Our next witness is Alan Shaw with Electrolux Major Appliances North America. Mr. Shaw, you have five minutes.

MR. SHAW: Thank you. Good afternoon, distinguished members of the committee. My name is Alan Shaw, and I'm the President and CEO of Electrolux Major Appliances North America. Thank you for the opportunity to appear before you on such an important issue.

Electrolux is one of the world's leading manufacturers of home appliances, and we've been manufacturing here in the United States since 1931. Today, in the U.S., we have five manufacturing plants, four R&D centers, ten distribution centers, and we have more than 9,000 employees.

We primarily sell under the Electrolux brands. We build refrigerators, freezers, cooking products, dishwashing and laundry. In 2017, we sold more than 14 million products in North America and saw revenues of nearly $5 billion.

I raise these results to emphasize our economic contribution. The 19 facilities that I mentioned are mostly in small towns across America, and we are helping those local economies grow.

With that as a background, let me turn to the topic of the day. Portions of Section 301 put our U.S. manufacturing in harm's way because the main beneficiaries of the tariffs will be foreign manufacturers who are not impacted by Section 301 because they are and will continue building appliances outside of the U.S. and importing them into the country.

The proposed tariffs cover key components in our appliances that, in the near term, we are unable to source outside of China. This means for the U.S. manufacturers those components will cost more and ultimately raise the cost of the appliance. This increased cost, what I would call an unintended bias against U.S. manufacturers, like Electrolux. I call this unintended because I know that sacrificing U.S. competitiveness wasn't the committee's, nor the president's, goal, but I also know that the consequence of these tariffs on many components on this list will be immediate and significant for our company.

But rather than discussing this in abstract, let me provide a specific example. The current list covers the compressors that go into every single refrigerator and freezer sold in America. There are more than 13 million sold in the U.S. each year. Across the industry, there is no viable American supplier for these compressors, so the tariff will not protect any U.S. industry. All it will do is drastically increase the cost of the single most expensive part of every U.S.-manufactured refrigerator and freezer.

Foreign manufacturers, because they're not impacted by the tariff, will not have the same increased cost and, therefore, will not have to raise their consumer price. But we will and it will make U.S.-manufactured products less competitive. Already 64 percent of refrigerators and freezers sold in the U.S. are imported.

You might ask why we just couldn't source compressors from some other places. It's a legitimate question. But to ensure that we meet regulatory safety and performance requirements, it's going to take more than a year to qualify a new compressor supplier. We're already in talks with other suppliers, and they've confirmed that our costs will increase as a result. This again demonstrates the unintended bias and one that would not create a benefit to U.S. industry.

I've been working in manufacturing for more than 30 years, and I know the severity of China's unfair trade practices and their adverse effects on U.S. interests. But I'm deeply concerned about the unintended consequence and downside of some of the tariffs.

As I said, we're proud and committed to U.S. manufacturing. The quality of American-made products is impressive, and so are each of our 9,000 workers. But some of these tariffs will be a terrible hit, making U.S. manufacturing less competitive without helping any U.S. industry. Said another way, it will cost less to manufacture outside the U.S.

For these reasons, we respectively request that the committee consider the ramifications of the components critical to the

U.S. industry and that are only available from China or don't have an American supplier and that you protect U.S. companies from the unintended bias and, finally, that you level the playing field without damaging U.S. manufacturing.

Once again, thank you for the opportunity to share our concerns today. I'd be pleased to answer any questions. Thank you.

MR. BISHOP: Thank you, Mr. Shaw. Our next witness is Mike Gray with Valmet Corporation. Mr. Gray, you have five minutes.

MR. M. GRAY: Good afternoon. Thank you for the opportunity to participate today and present the views of Valmet Corporation. My name is Mike Gray, and I'm the Senior Vice President of Valmet's North American capital business operations. Valmet is the leading global developer and supplier of technologies, automations, and services for the pulp, paper, and energy industries. Valmet's technology and offerings include pulp mills, tissue board, and paper production lines, as well as boilers for power plants engaged in energy production.

We are headquartered in Finland and have 15 U.S. locations in a number of states. We supply our U.S. customers with paper-making machinery, energy products, employ 1,200 U.S. workers, and generate revenues for local communities. We have production facilities in the United States, Finland, Sweden, and China. In our Chinese facilities, we produce components of machines that are imported to the United States for assembly and installations by thousands of U.S. workers.

Valmet shares the Trump administration's commitment to combating China's violations of intellectual property rights, forced technology transfers, and other policies that harm U.S. companies and workers. Taking into account our mutual commitment, Valmet respectfully urges the USTR to remove from its tariff target list machinery for pulp, paper, and tissue-making, products of pulp and paperboard, and certain boiler machines. As I discuss here, tariffs on these products will cause disproportionate harm to U.S. interests and will not be effective to obtain the elimination of the Chinese acts, policies, and practices found to be in violation of Section 301.

Duties on these products will impact U.S. consumers and jobs and result in decreases in revenues for Valmet's numerous U.S. facilities impacting investors and local communities and governments. As to impact on consumers, we would need to modify our supply chains, causing disruption and increased costs to our customers and, in turn, the end consumers of the products made by our equipment.

For an industry that relies on long-term planning, these effects will be particularly acute. As a result, demand for our product offerings will decrease, impacting U.S. workers and our revenues.

We or our customers employ thousands of U.S. workers each year to assemble and install our equipment. In total, the duties will put at risk approximately 6,000 direct and indirect jobs per year across the United States. Revenues will decrease in Valmet facilities in the U.S. and China, impacting rates of return of investors and tax revenues of the local communities. According to our first estimate based on our three-year strategy, the annual impact of tariffs will be in excess of $50 million on our sales.

The magnitude of these impacts will not be offset by increases in domestic production. These products are not currently produced in the United States. Restarting production will require the building of special facilities with significant foundations and equipment, specialized training, significant capital investment, and would take multiple years to implement.

What's more, the increased duties will not address concerns articulated by the USTR. As a company with seven wholly-owned production facilities in China and two joint ventures with Chinese entities, we can speak to these concerns with substantial experience.

As to technology transfer, we do not transfer our sensitive technology to Chinese companies, including our joint venture partners. High-tech companies of our pulp and paper-making machinery, which are produced in China, are produced in Valmet's wholly-owned facilities in China with a majority of these products being produced in Finland. No high-tech components are produced in Valmet's Chinese joint ventures. High-end components of our boiler machinery are produced in Finland and imported directly into the United States.

As to licensing practices, we have only licensed technology to our wholly-owned Chinese enterprises and joint ventures in China. And in the latter case, we license the technology by choice in our market-based terms.

As to Chinese outbound investment, our company has not previously been approached by Chinese investors that seek to acquire our business. As to cyber theft, our business confidential information has not previously been stolen by the Chinese government. On a global level, we are in constant discussion about ways to counter the risk of cyber theft.

In short, the concerns the USTR seeks to address do not apply to our operations in China and, to our knowledge, do not apply to those of our largest competitors, both of which have wholly-owned production sites in China. Tariffs on the paper and energy products will only cause a disproportionate impact on the U.S. interests, including on jobs and consumers, as I have described above.

Thank you again for this opportunity to present our views on the matter of serious concern to our company, and I look forward to your questions.

MR. BISHOP: Thank you, Mr. Gray. Our next witness is Ann Wilson with the Motor and Equipment Manufacturers Association. Ms. Wilson, you have five minutes.

MS. WILSON: Thank you. Good

afternoon and thank you for the opportunity to testify today.

MR. BISHOP: Move your mike a little closer, if you would, please.

MS. WILSON: Got it?

MR. BISHOP: That's great. Thank you.

MS. WILSON: My name is Ann Wilson. I'm the Senior Vice President of Government Affairs for the Motor and Equipment Manufacturers Association. MEMA represents manufacturers of motor vehicle parts, components, and systems, supplying the automotive heavy vehicle and automotive after-market industries. These suppliers are the largest sector of manufacturing jobs in the United States, directly employing over 871,000 Americans in all 50 states.

MEMA supports the administration's agenda to ensure free and fair trade for America. Our industry has long supported aggressive policies to protect intellectual property rights and enforce IP laws here in the U.S. and around the globe, including in China. However, MEMA is concerned about the adverse impact of manufacturing jobs resulting from the proposed 301 tariffs.

In MEMA's written comments, we ask for the removal of products included in but not limited to HTS Chapters 40, 73, 76, 83, 84, 85, 90, and 94. Products under these chapters are indeed used by suppliers either as part of the manufacturing production line or as materials and tools to produce vehicle parts.

Since USTR did not propose to include vehicle parts under HTS Subheading 8708, MEMA believes the proposed tariffs on vehicle products were unintentionally included. In fact, USTR should not include any additional vehicle products in the scope of the tariffs in any final decision.

Vehicle suppliers operate in a global supply chain of domestic and international suppliers and customers. China is a large and important trading partner for our industry. Many U.S. motor vehicle supplies have manufacturing facilities in China to service Asia and the rest of the world. In many cases, U.S. manufacturing capacity is simply not available for some of the materials and parts from China relied on by suppliers. But, importantly, these parts are necessary to enable domestic vehicle suppliers to continue their U.S.-based operations.

The proposed tariffs will cause disproportionate harm to U.S. interests by disrupting American manufacturing operations and increasing cost both to U.S. producers and consumers. Over the last few weeks, we have fielded hundreds of calls regarding the proposed tariffs. I'd like to share three of our concerns that I've heard.

First, a large domestic Tier 1 original equipment supplier shared with me their concern about cast metal parts, which this is one, that they import. These parts are not manufactured here because the manufacturing process that is necessary does not exist in the United States. If a 25-percent tariff were to be enforced on these parts, the supplier must either pass on the cost to the vehicle manufacturer or absorb the cost themselves. Passing on the cost is not possible because the vehicle manufacturer would seek other suppliers potentially overseas. If the supplier swallows the cost, they may then be forced to either scrap planned U.S. investments, including workforce, training, or facilities expansion. Either choice results in financial losses to the supplier impacting the U.S. workers.

Second, a heavy vehicle truck supplier imports components subject to the 301 tariffs for further assembly in the U.S. These finished assemblies go into a variety of heavy-duty commercial trucks throughout the country. If this company is forced to pay the tariffs on imported components, they would likely use orders and ultimately layoff hundreds of their U.S. employees.

Finally, a domestic independent after-market supplier shared with me that a 25-percent tariff will cause severe economic harm to U.S. consumers. These consumers need after-market parts to repair and maintain their vehicles. Due to increased repair costs, U.S. consumers may be forced to forego repairs and foregoing maintenance undermines the operating safety and efficiency of consumers' vehicles.

The common thread here among these suppliers are the threats of increased costs, lack of U.S. manufacturing capacity, and overall uncertainty. Please understand the costs of these tariffs won't just impact companies but, ultimately, U.S. consumers and our country. The price will be loss of current jobs, constrained access to materials and parts, and curtail future U.S. investment by vehicle suppliers.

In closing, we urge you to not move forward with the broad-based tariff. MEMA applauds the current bilateral discussions between the U.S. and China and urges their continuation.

We agree with the administration that

the U.S. must take strong action to protect our economy and our nation's workforce. However, the recently proposed tariffs will have the opposite effect and long-term damage to U.S. competitiveness.

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

MR. BISHOP: Thank you, Ms. Wilson. Our next witness is David Hull of Precision Components, Incorporated. Mr. Hull, you have five minutes.

MR. HULL: Distinguished panel and participants, my name is Dave Hull. I've worked in the bearing industry for 40-plus years and started Precision Components in 1990. Since that time, I've visited over 500 bearing facilities in China and I've participated in four bearing anti-dumping cases.

I'd like to request that bearings and bearing components be removed from the 301 criteria. Those are harmonized tariff schedules 8482.10.50 through 8483.30.40. Seventy percent of the world's bearings are produced by ten companies. None of those companies are Chinese. Those top-ten companies have 61 plants in China. Most of them are wholly-owned foreign enterprises. These Chinese factories produce lower and older technology bearings.

Cutting-edge technology and research is still done in the United States and other more developed countries. Additional duties would make it detrimental to those ten non-Chinese companies.

U.S. manufacturing and the jobs they represent is dependent on commodity bearings from China, as many of those bearings have not been made in the United States for decades. U.S. bearing industry would also suffer due to their outsourcing of unfinished components and finished components to make themselves more globally competitive. Raising the price of bearings will raise the price of consumer goods, ranging from vacuum cleaners to automobiles.

The bearing industry is already paying

a 4.8 to 9.9-percent import duty and the tapered roller bearings from China are subject to anti-dumping duties of up to 90 percent. This already puts U.S. manufacturing at a disadvantage. For example, to Mexican manufacturing facilities where products are manufactured, assembled with bearings from China, they do not pay that 9-percent import duty. Those products come into the United States and no duty is collected on those products.

If the United States would like to correct that, they should think about finding a way to collect that 9-percent duty that's already in place from products coming in from Mexico. That would level the playing field with U.S. manufacturing and bring more jobs back to the United States. Thank you.

MR. BISHOP: Thank you, Mr. Hull. Our final witness on this panel is Greg Merritt with Cree, Incorporated. Mr. Merritt, you have five minutes.

MR. MERRITT: Thank you. Good

afternoon and thanks for the opportunity to address the panel. My name is Greg Merritt. I'm Vice President of Marketing and Public Affairs at Cree, Incorporated. Cree is an American company based in North Carolina and is a market-leading innovator and a producer of energy-efficient semiconductor products, including LEDs and LED-based lighting. Cree employs approximately 4,000 workers in the U.S., primarily in North Carolina, Wisconsin, and Arkansas.

At the outset, let me say that Cree supports the goals of the Section 301 investigation to protect American IP and guarantee fair trade. Cree has invested heavily in developing and expanding American IP through $1.3 billion in R&D spending in the U.S. over the last ten years. Our R&D investment has led to approximately 2,200 U.S. patents.

Our R&D spending and IP development takes place primarily in our Durham, North Carolina headquarters facility. In Durham, we also produce the LED wafers that contain the LED chips. This is the core of the high-tech operations of our business.

The production of LED wafers is a high-tech complex process using extremely proprietary technology. This process involves hundreds of semiconductor fabrication steps and takes between three and eight weeks. In fact, this process is so proprietary that non-production related employees, such as myself, do not have access to the production operations.

Cree produces approximately five and a half billion LEDs in our Durham facility every year. We began exporting these LED wafers to our wholly-owned facility in China beginning in 2007, primarily as a means to gain access to large and rapidly-growing Chinese and Asian markets.

The LED wafers that we export to China are cut and packaged to produce LED chips and components using much less sophisticated technology than we use in Durham. In fact, this takes usually a week or less to complete.

The LED chips and components are then

shipped around the world to China, other Asian markets, Europe, and some back to the U.S. for use in our own production facility in Wisconsin and sold to other unrelated customers. The LED components are then used to produce LED lights and LED displays and other products.

Our estimate is based on the sales value. Approximately 70 percent of the value of these LED components and chips is based on U.S. intellectual property.

We have intentionally and carefully structured our Chinese operations to keep our IP separate and apart, allowing Cree to maintain virtually all of its significant R&D activities in IP in the United States. However, included in the initial list of products subject to the 301 tariff is the HTS line that covers both the LED wafers and LED chips and components, HTS 8541.4020.

There is significant competition in the LED market both in the U.S. and around the world from other sources, including companies in

Malaysia, Korea, Germany, Japan, that will prevent us from being able to pass along the increased costs of the 301 duty to our customers. In fact, to maintain profitability of our Cree lighting business, we would be forced to source LED components from other non-U.S. owned suppliers to produce our lighting products in Wisconsin.

Our existing U.S. customers, such as Daktronics you heard from in Panel 8 this morning, would also need to do likewise. As a result, the demand for Cree's LED components, which I remind you the vast majority of their value is derived from our Durham facility, would drop. The loss of sales for LED components would significantly reduce our operating profits and cash flow. The loss of operating products and cash flow will cause reductions in our R&D spend, our expansion of manufacturing facilities, and, therefore, the development of new cutting-edge American IP. We believe this is the very definition of disproportionate economic harm.

Our U.S. R&D and IP investments would decline. Our non-U.S. competitors would obtain a competitive advantage over Cree's American operations, and the tariff would have no impact on China's competitive IP practices.

We do not believe this outcome is what the administration intended, nor do we believe it meets the goals of the 301 investigation. Therefore, we respectfully request that HTS Number 8541.4020 come off the 301 list.

Thank you. I'm happy to answer any questions.

MR. BISHOP: Thank you, Mr. Merritt. Mr. Chairman, that concludes direct testimony from this panel.

CHAIR ALLEN: Thank you to all for their testimony. We'll go ahead and begin our questions for the panel with Department of Labor.

MS. PETTIS: Hi. It's Maureen Pettis, Department of Labor. I have a question for Mr. Campbell. You've --

MR. BISHOP: I need you to get your

mike, please. Thank you.

MS. PETTIS: Sorry. You've analyzed domestic and Chinese supplies of aluminum and steel products used for food and beverage cans. Are there non-Chinese foreign sources for aluminum and steel that you can use, you do use or can use outside of China?

MR. CAMPBELL: Thank you for the question. Yes, there are. We source template steel currently from South Korea, the UK, Netherlands, and Germany, in addition to China. And for the aluminum can sheet, Saudi Arabia, Japan, South Korea, and Europe source, we source product from those countries.

MS. PETTIS: Thank you.

MR. MOORE: Yes, Dewey Moore from the Department of State. I have a question for Mr. Gray. You testified that your company has a --

MR. C. GRAY: That would be Charles, Charles Gray.

MR. MOORE: Yes, Mr. Charles Gray. Yes. Sorry. Well, you had testified that

Teradyne uses a contract manufacturing facility in China. In your written testimony, I believe you mentioned that was in Suzhou. I was wondering if you could discuss the feasibility of shifting manufacturing operations to another country.

MR. C. GRAY: Certainly. It would take significant time and money, but it certainly could be done. The facility that our contract manufacturer has built in China, both they and we have invested heavily in it for ten-plus years. We believe it's a state-of-the-art facility, best in the industry. So moving it would be complicated, expensive, and timely.

Our product is also wildly complex. There's only two companies in the world that build this product, so it's not as if we're making a toaster oven that we could simply pick up and move the manufacturing somewhere else. So it's a very complicated system. We have over 10,000 components in the product, so, obviously, the supply chain has built up where the manufacturing has built up, so we'd have to rebuild the supply chain, in addition to moving the manufacturing.

We think it would be three years and many millions of dollars to do so. And also I should add it would have no impact on technology transfer in China, and it would have no impact on the Chinese semiconductor industry if we picked up and moved.

MR. MOORE: Thank you.

MR. C. GRAY: You're welcome.

MR. SULEWSKI: Hi, this is Adam Sulewski with DHS. My question is for Valmet Corporation. You had mentioned that Valmet has production facilities in the U.S., in Finland, in Sweden, and in China. Can you discuss the feasibility of shifting production from your facilities in China to those other facilities?

MR. M. GRAY: Sure. And it's very complex. I guess the U.S. facilities, we don't have any facilities in the U.S. that have anywhere the capability to produce the size of equipment we're talking about. When we talk about paper machines, they're as long as a football field and four stories tall and very specifically designed.

It is potential to shift some of the manufacturing to our European entities in Finland and Sweden. It becomes a very logistical challenging process for us. As with any company, we try to balance our manufacturing capabilities and keep our shops full. Delivery times are already, at this point, 22 to 24 months for a new paper machine, and moving that into other facilities would further exacerbate the long delivery times and the cost of doing such transactions and the interruptions to our sourcing would be very difficult for us.

MS. PSILLOS: Kate Psillos, Department of Commerce. My question is for Mr. Shaw. You discussed the difficulty of sourcing compressors from outside of China. Can you elaborate on the process of finding alternative suppliers and then specifically the regulatory and safety requirements involved for these compressors?

MR. SHAW: Sure. I'll try to answer your question as best I can. So, typically, our standards for qualifying a new compressor supplier take us about 18 months, assuming that that supplier has production capability and can meet the various Department of Energy and EPA guidelines, which are not always capable. However, it's generally a global supply base, and, given that 18 to 24 month time frame, it can be done.

However, that supply base, which is controlled by very few people, manufacturers a good portion of these and our major competitors manufacturer a good portion of these in China. The point of the short-term pain is not so much could it be done with 24-month lead time but the advantage that foreign manufacturers importing those same compressors into finished goods would receive a benefit during that period of time.

CHAIR ALLEN: Thank you. A question for Ms. Wilson of the Motor and Equipment

Manufacturers Association. So you discussed the current lack of domestic sources for many of the products subject to the proposed tariff. But in your opinion, would more domestic or non-Chinese suppliers come into the market with tariffs imposed on Chinese products? That is to say, would there be a market response in response to those tariffs?

MS. WILSON: Well, thank you for the question, but there may be a market response but the market response may not be what we intend. And I think that's one of the things we have to guard against.

The first thing to look at is basically automotive manufacturing overall in North America. We have hit a plateau for vehicle sales in this country. We do not anticipate overall for it to grow steadily. But what you see in Asia is a rapid opportunity for growth both for original equipment, vehicles, parts, and for the after-market. So that's the first thing we have to look at.

The second thing is the availability of certain technologies. So I brought this part not just because it's heavy and it's helping me lift weights but also because the sand that is available in China to make this part is actually not available in the United States. Now, what our members are concerned about is that you can easily say, well, we will no longer make this part, and I think many of the other witnesses have described what might happen with foreign competition. But because the sale of vehicles overall is really driven by the cost of vehicles, which is about $35,000, vehicle manufacturers may then indeed try to find a lower price point and we may lose the final assembly jobs in the U.S.

So this part is brought into the U.S. and more assembly is done to it before it's shipped to the vehicle manufacturer. We don't want to lose those jobs. That's the other piece of this.

And then, overall, what I think we're seeing is we have in our industry a lack of technical talent. If you talk to our CEOs, the biggest problem they have right now in their companies is filling current jobs that they have open. So the ability for them to expand is really driven by the ability for them to have the right workforce, and we're not just talking about engineers but we're talking about trained welders and tool and die manufacturers and things like that.

So, again, you may shift production, but we're a global industry and you may shift it to other areas other than the United States.

CHAIR ALLEN: Thank you.

MR. WINELAND: I'd like to direct my question to Mr. Hull of Precision Components. In your testimony, you referenced 61 manufacturing plants owned by multinationals in China. I'm wondering if you could share with us a little more on alternative sources of commodity and consumer-level bearings from countries outside of China.

MR. HULL: Thank you for the question.

The 61 factories in China are producing primarily commodity-level products for those global companies, in large part, for the Asian market and they no longer manufacturer any of those sizes in the United States. Twenty years ago, I used to sell 40 million bearings a year to U.S. manufacturers of windshield wiper motors and power tools, vacuum cleaner motors. Those manufacturing facilities aren't in North America anymore. They're in Mexico and Asia.

Did that answer your question? Would you like more?

MR. WINELAND: Yes --

MR. HULL: I can talk for days on this subject.

MR. WINELAND: Well, just to, if you can elaborate more on potential alternative sources outside of China, recognizing what you just said about the U.S. manufacturing now. But are there other countries, you referenced Mexico and Asia generally, but could you be a little more specific?

MR. HULL: Well, Leonardo da Vinci sketched the first ball bearing, so there aren't a lot of new technology advances. The industry developed in Europe and then in the '40s, '50s, '60s, the United States, and then in the '60s Japanese manufacturers with the dimming process became very prominent in the world market for bearings. And it is since migrating to China. But China hasn't gone through the consolidation and agglomeration process, so the reason there aren't any major bearing producers in the top ten from China is to be in that league you've got to be five billion a year plus. And with over 2,000 bearing manufacturers in China, you know, they're in the $50 million range.

So China does a good job of organizing the standardization of these products. They pattern it after the specifications from the American Bearing Manufacturers Association and the ISO specifications out of Europe. But they're still in a copying/following stage, so the U.S. producers have moved that production equipment from the United States to China to make those bearings.

It's an extremely expensive industry to get into. I mean, you need a million dollars' worth of equipment to make a million dollars' worth of bearings a year, and U.S. producers of bearings would rather focus on the newer technologies that have higher margins.

So China produces about 13 percent of the world's bearings. The United States still produces about 23. So, you know, there really isn't a big opportunity to move that low-tech stuff back to the United States for anybody who's interested in making a profit. Thank you.

CHAIR ALLEN: This question is for Greg Merritt of Cree. Kind of in a similar vein to the question posed by my colleague, you referenced in your testimony non-U.S. competitors for Cree, and I wonder if you could give a bit more granularity on, you know, who these major foreign competitors are and, most specifically, whether they also manufacturer LED components in

China. So in other words, are there alternative places to manufacturer LED components?

MR. MERRITT: Sure. So the LED component market is primarily serviced by Cree, OSRAM which is a German company, NICHIA which is a Japanese company, Samsung which is a Korean company, Seoul Semiconductor which is a Korean company, Lumileds which is a U.S.-based company but is owned by a British private equity firm. And those are the big guys.

Most of those firms are in similar situations to Cree in that they keep the intellectual property heavy part of their business in their domestic facilities, but they package their products elsewhere. Typically, that's Malaysia, the Korean folks do it in Korea. And I believe many of the other ones have facilities in China but, unlike Cree, they have facilities elsewhere in Asia, as well, so they can ship anything they want to ship to the U.S. to a non-China packager.

CHAIR ALLEN: Thank you. That

concludes our questions for this panel.

MR. BISHOP: We dismiss this panel with our thanks, and we invite the next panel to be seated, please.

CHAIR ALLEN: Mr. Bishop, we are ready for the next panel.

MR. BISHOP: Our first witness on this panel is Ambassador Rufus Yerxa of the National Foreign Trade Council. Mr. Ambassador, you have five minutes.

AMBASSADOR YERXA: Thank you, Mr. Chairman and members of the panel. National Foreign Trade Council has submitted comprehensive testimony to you describing --

MR. BISHOP: I apologize. Could you move your mike a little bit closer to you, please? Thank you.

AMBASSADOR YERXA: Yes, sorry. My organization, the National Foreign Trade Council, has submitted comprehensive testimony to you describing some of the concerns we have about the proposed imposition of tariffs. Let me just say a few things in summary of that testimony.

First of all, as you probably know, NFTC is a broad-based organization focusing on strengthening global rules for the trading system and opening foreign markets to U.S. products. Our organization really spans the breadth of the U.S. economy and covers all sectors of manufacturing services, food production, other things. Our companies account for more than $3 trillion in sales worldwide and employ over six million Americans.

Now, the first thing I'd like to say is that our member companies do have very significant concerns about the growing use of trade, investment, IP policies in China that deny national treatment and impose discriminatory burdens on them. We've outlined these practices for you in numerous submissions. And we definitely applaud the administration's efforts to identify those practices, to document them more fully, and to begin to examine them and to raise them forcefully both in bilateral and multilateral settings to try to address China's behavior going forward.

In our view, China must address the legitimate concerns of the U.S. and other partners about these measures. Failure to do so will seriously erode international support and public support in the U.S. for expanded in trade and investment with China.

So we think your report provides a lot of convincing evidence, and it should be used as a roadmap to convince other trading partners to join us in pressing China to reform its policies, and we think that it is absolutely crucial to have a really coordinated global effort with our trading partners to get China to address these problems.

And you should use this report to gain broad acceptance of a strategy among like-minded government in the WTO, the G20, and other bodies aimed at convincing China of the need to change. And we believe only through such an initiative can we exert sufficient pressure to convince

China that its practices and policies are unsustainable.

But we do believe that unilateral imposition of remedies proposed by the administration or the potential investment measures contemplated, particularly prior to achieving any broader global support for such measures or before any substantial long-term effort to negotiate removal of these practices would do greater harm than good to the U.S. economy and would be unlikely to be effective in eliminating China's discriminatory acts, policies, or practices.

So unilateral imposition prior to any meaningful negotiations will raise charges that the U.S. is going forward with respecting its international commitments and it will turn the focus from China's unjust behavior to the legitimacy of our own action. We outlined in our testimony a number of specific potential impacts of the premature imposition of tariffs on U.S. manufacturers, U.S. technology companies, and

U.S. competitiveness, particularly since so many of them are focused on products that are part of the supply chain and that are necessary inputs to our companies to be competitive. So it has the paradoxical effect of making our own companies less competitive in global commerce and actually handing advantages short-term to our competitors.

So I won't go through all of those examples. I'd be glad to discuss them with you in detail when we get to questions.

Let me just end by saying the overall focus of the 301 investigation should be to bring China to the negotiating table for a meaningful resolution of specific sector-by-sector issues with the ultimate goal of obtaining an agreement. It's critical for the administration to identify and outline the specific actions it seeks from China to resolve the Section 301 investigation to the maximum benefit of our own trade and investment interests, and we need to work with our allies and major trading partners to do that.

Section 301 was designed to be used as

a means to an end, not as an end in its own right. And it must be part of a carefully-orchestrated, deliberate, and defensible effort to dissuade other countries from engaging in unfair behavior. For this to work effectively, the administration should focus its efforts on resolving other frictions with our key trading partners in Asia, North America, and Europe, and then use all aspects of bilateral and multilateral diplomacy to highlight China's unfair behavior and mobilize global support for changes in that behavior.

Thank you very much.

MR. BISHOP: Thank you, Ambassador. Our next witness is Eva Hampl of the U.S. Council for International Business. Ms. Hampl, you have five minutes.

MS. HAMPL: Thank you. USCIB welcomes the opportunity to testify on the proposed Section 301 tariffs today. As an organization, we promote open markets, competitiveness, and innovation and our roughly 300 members include top U.S.-based global companies and professional services firms from every sector of our economy with operations in every region of the world.

We believe that the imposition of tariffs will not achieve the important goal of changing China's behavior in the space of emerging technologies and intellectual property rights. China's threat of retaliation further exacerbates uncertainties caused by this proposed action. Rather than create more opportunities for U.S. business, sweeping tariffs will stifle U.S. agriculture, goods, and services exports and raise costs for businesses and consumers.

To address these issues, a holistic structure is needed. USCIB applauds the administration for also looking at alternative approaches, such as initiating a WTO dispute by requesting consultation with China. It is important for the administration to address these issues with a broad view, working collectively with U.S. industry, Congress, and our like-minded trading partners to adequately address China's unfair trade practices and get China to be WTO compliant. In addition to engaging the WTO process, this should include developing a strategy with clearly-defined objectives and direct negotiating mechanism with the Chinese, targetable deliverables, and deadlines with measurable results.

China can be a challenging market for U.S. companies to navigate. Made in China 2025 is certainly an indication that China plans on further advancing and developing their high-tech industries with the eventual goal of global dominance in those industries through uncompetitive means, such as subsidies. While this unfair advantage to Chinese companies in this space is a legitimate threat to U.S. leadership in innovation and high tech, continued engagement in the Chinese market is also very important for U.S. companies in terms of their ability to be globally competitive.

If the government does proceed with the strategy of imposing tariffs however, there are several important concerns we would like to raise to alert the administration to the consequences of moving forward on imposing tariffs on such a comprehensive list of products. In our written submission, we highlight specific products we recommend be taken off the list.

The proposed tariffs pose a unique challenge to industrial inputs, which represent over 80 percent of the proposed list. Tariffs on industrial goods are especially problematic because they represent not just a tax on consumers, as all tariffs do, but also a tax on U.S. manufacturers and workers and on the products they export.

Tariffs on aerospace machinery and IT parts and other advanced technologies can undermine the most competitive sectors of American manufacturing, driving up production costs in the U.S., impacting U.S. manufacturing employment, and making U.S. manufacturers less competitive against rivals. Tariffs on industrial parts imported into the U.S. could even have the unintended consequence of prompting manufacturers to move final production outside of the U.S.

To see how U.S. companies will be affected by the tariffs, it is important to look at how the supply chain functions. China is the second-largest economy and the largest manufacturing economy in the world. We cannot ignore that China may have some unique capabilities at the product level that U.S. businesses need to tap into in order to remain globally competitive.

For many products or inputs, there is no feasible alternative to procuring from China. Sourcing from China may also be necessary for U.S. businesses in cases where alternative suppliers already face capacity constraints and cannot support new demand and are, therefore, unavailable.

Also, in a case where U.S. business may, in fact, own the production facility in China where a particular product on the tariff list is made, these tariffs don't hurt Chinese businesses. They hurt that U.S. company, as well as its U.S. workers and its U.S. suppliers who need those parts to continue making world-class manufactured goods in the U.S.

Sourcing outside of China could also significantly affect production due to qualification and certification requirements. For industrial parts, the process can be very complex. Qualifying to join a U.S. manufacturer supply chain is a multi-step process that can take up to three years, even longer if the part requires federal certification.

In cases affected by those scenarios, if the administration insists on imposing tariffs, the government must be prepared to defer the implementation of the tariff on that product. Otherwise, immediate imposition of the 25-percent tariff before any alternative can be qualified will simply be a direct hit to U.S. businesses' profitability and competitiveness. Without such an allowance, competitors in Europe, Japan, and elsewhere will immediately gain a significant advantage in global markets.

We urge the administration to use this process, this 301 process to ensure that its actions do not inadvertently harm some of the most competitive sectors of the U.S. economy and the hundreds of thousands of American jobs that depend on them.

Thank you for the opportunity to testify. And we look forward to questions and continued engagement on this important issue.

MR. BISHOP: Thank you, Ms. Hampl. Our next witness is Erik Autor of the National Association of Foreign Trade Zones. Mr. Autor, you have five minutes.

MR. AUTOR: Thank you. I'm Erik Autor, President of the National Association of Foreign Trade Zones. On behalf of the association and its members, my testimony focuses on the impact companies operating in U.S. foreign trade zones expect from proposed 25-percent tariffs on $50 billion worth of targeted imports from China under Section 301.

NAFTZ is the voice of the U.S. foreign trade zones' program created by Congress in 1934 to help U.S.-based companies be more globally competitive, maintain U.S.-based activity and jobs, attract investment to American communities, and boost exports through special duty benefits and customs procedures. FTZs account for a significant portion of total U.S. trade, 5.2 percent of $76 billion of U.S. goods exports and 10.2 percent or $225.3 billion of U.S. goods imports in 2016. Over 420,000 American workers are employed at FTZs in all 50 states and Puerto Rico.

NAFTZ agrees that China's intellectual property rights violations, forced technology transfers, and state interventions warrant appropriate action. However, NAFTZ represents many internationally-competitive companies and industries, including energy, automotive, aerospace, pharmaceuticals, and consumer electronics that rely on China and other countries to supply inputs necessary for their U.S. production and also include China as a key export market.

Accordingly, we share the serious concerns of many U.S. business organizations about the adverse consequences Section 301 tariffs pose for U.S. manufacturing, exporting, and consuming industries, including creating strong incentives to manufacturer abroad as U.S. production costs increase and imported goods become more competitive in the U.S. market.

This scenario also threatens to undercut important FTZ program goals: one, to sustain the U.S.-based manufacturing and jobs by equalizing duties on U.S.-made and foreign-made products and, two, eliminate situations where U.S. manufacturers pay significantly more than foreign exporters in U.S. duties because duties on inputs are higher than on the final product.

To mitigate these problems, NAFTZ believes it's essential for the Section 301 process and other trade remedies actions to establish an effective ongoing product exclusion request procedure enabling companies to secure exclusions from duties for certain imported materials, including finished products manufactured in U.S. zones.

Another critical issue for FTZ manufacturers in trade remedies proceedings is that finished goods approved by the U.S. Foreign Trade Zones Board for Zone Production must not be incorrectly considered foreign origin for U.S. Customs entry purposes and must be explicitly exempted from additional tariffs in presidential proclamations. Our May 11th written comments provide an example illustrating the potential problem and include recommended proclamation language to ensure goods finished the U.S. zone are not inadvertently subject to additional duties.

The Section 301 action would also require FTZ manufacturers to admit any subject articles into a U.S. zone under so-called privileged foreign status and pay the additional duties when the finished product incorporating those articles is entered into U.S. commerce. In laying out the privileged foreign process for FTZs, it is essential that proclamation language avoid including language used in the March 22nd presidential proclamations on steel and aluminum, which read any steel or aluminum article that was admitted into a U.S. foreign trade zone under privileged foreign status prior to the effective date of the duties will likewise, emphasized, be subject upon entry for consumption to any rates of duty imposed by this proclamation. NAFTZ is unaware of any past proclamations containing such language and imposing additional duties upon filing a customs entry on merchandise in an FTZ that was under PF status prior to the effective date of such duties.

This condition penalizes FTZ users for manufacturing in the United States and contravenes language in the Foreign Trade Zones Act and customs regulations regarding the election of PF status on merchandise and zones.

NAFTZ also has several other technical issues regarding treatment of foreign trade zones merchandise in this and other trade remedies actions. As time is limited, I'll refer the committee to our May 11th comments for more detailed discussion, including additional recommendations for presidential proclamation language to provide better and clearer guidance to FTZ manufacturers.

Thank you for your attention.

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

MS. CHANDLER: Thank you. Thank you for the opportunity to appear here today. I am Sage Chandler, the Vice President for International Trade at the Consumer Technology Association. CTA remains opposed categorically to the use of tariffs to address the trade imbalance with China because of the high likelihood of short-term and long-term negative impacts on our member companies, on the U.S. economy, and on U.S. jobs.

CTA represents more than 2200 companies from every facet of the consumer technology industry, including manufacturers, distributors, developers, retailers, and integrators. Over 80 percent of our members are small businesses, as defined by the SBA. And our trade relationship with China is of significant importance to our members. They rely on the global supply chain to compete and to sell.

Of the administration's lists of 1300 products for proposed tariffs, our members identified 193 codes of which a potential 25-percent tariff would cause them great harm. Our small companies in particular noted that they would not be able to switch sourcing from China to another country at all or at least, if they could, without significant disruption to their businesses. Moreover, the majority said that if they could switch sourcing, it would not be to the United States.

Other members, including innovative startups, expressed concern that the proposed tariffs put them at a disadvantage vis a vis their foreign competitors. This is of particular concern to our member company Local Motors. It's a small innovative startup, veteran-owned, former military, designing vehicles for use in the military and other vehicles. They're based out of San Francisco, and this ground mobility company prefers to use American-made product but notes that oftentimes there are things that they cannot get here.

Their local micro factories employ Americans in five states. They have manufacturing facilities, sales, and I brought a little picture here, show and tell. This is a really cool vehicle that they've designed. They do crowd-sourcing. They're working with DARPA and the military to design advanced vehicles for military use, and they've got a really neat model. So there's that.

They believe that the additional cost

of tariffs could up their build materials cost by about 5 to 12 percent and put them at a big disadvantage to their two main French competitors, also slowing their production and ability to grow the market share.

Some of our startup companies also feel that tariffs and the associated market uncertainty could keep their products from going to the market altogether. For example, I'd like to talk about our member company HiberSense which is due to launch on June 1st. They are afraid that this market uncertainty could harm their investors and their ability to get their products to market. The majority of their product is produced in the United States. All their design, engineering, and manufacture of the majority of it happens right in Pittsburgh. They're a Pittsburgh startup. Two students and a professor got together to look at home temperature control, and they're using really smart technologies but they rely on one piece from China that's just a control device, what we have identified on the tariff list as a thermostat. But they've retrofitted this to their products that they manufacture in Pittsburgh, and the cost to them of switching sourcing, if they could, would be one full year plus of development of their product.

So of those companies that I've just mentioned, there are six states represented with their employment and their manufacturing. And CTA and the National Retail Federation did a study on the impact for jobs. I just highlighted those six states. This is not the impact on these two small companies' jobs but this is jobs that we estimate that would be lost in each of those states for tariffs imposed by the administration and then the retaliatory tariffs from China.

So in conclusion, we believe that there are other actions that the administration can take. We believe in the use of Section 337 for example, better promotion of existing programs, like the Foreign Commercial Service and operations on the ground with ICE and DHS. The WTO is an excellent avenue. We have a lot of experience domestically in some of the areas that you're looking to address in patent and IP. We'd be happy to help, and I look forward to taking questions. Thank you.

MR. BISHOP: Thank you, Ms. Chandler. Our next witness is Erin Ennis of the U.S.-China Business Council. Ms. Ennis, you have five minutes.

MS. ENNIS: Thank you. Hello from the back row. My name is Erin Ennis. I'm Senior Vice President of the U.S.-China Business Council. We represent over 200 American companies that do business with China.

USCBC agrees with the Trump administration that China needs to improve intellectual property protection and end policies and practices that require technology transfer as the price for market entry. At the same time, USCBC wants to see those issues addressed with solutions, rather than with sanctions such as tariffs that will inflict damage on U.S. economic interests. We support results-oriented dialogue to resolve the issues in coordination with other trading partners inconsistent with international trading rules. We urge the administration to seek measurable commercially-meaningful outcomes that will improve the business environment in China and level the playing field for American workers and companies.

USCBC's testimony contains numerous recommendations on how to achieve these goals. The key aspect for meeting the standard of commercially-meaningful is going to be ongoing. It's long-term diligence to ensure that progress is achieved, it's fully implemented, and not undermined by other policies that effectively eliminate any gains that are achieved.

In addition, the U.S. would gain far more leverage by working with like-minded economies in a coordinated approach to China on these issues, rather than a unilateral approach that exposes American companies, farmers, and workers to retaliation.

Finally, on investment, the presidential memorandum announced that the administration planned actions in response that would also include investment restrictions in the coming weeks. Inbound and outbound investment are important drivers of economic growth and jobs in the United States. While the Treasury Department's proposal has not yet been articulated, news reports about these policies have raised considerable concerns.

One of America's fundamental economic strengths is our open investment regime. Any restriction on inbound foreign investment should be confined to legitimate national security threats defined as narrowly as possible and tied to credible risks. Restrictions on outbound investment by American companies should similarly narrowly focus on legitimate national security threats.

An undefined broad use of national security is a justification for U.S. actions, damages U.S. credibility as a leader of the global trading system, and it validates China's approaches that have used similar justifications. Neither the United States nor its trading partners should implement policies that parts WTO commitments into simply the letter of the rules. We must push ourselves and our trading partners to implement policies that reflect the spirit of those commitments, as well.

If existing rules fall short, we should not abandon them but instead should take the lead in trying to improve them. Thank you.

MR. BISHOP: Thank you, Ms. Ennis. Our next witness is Raymond Keating with the Small Business and Entrepreneurship Council. Mr. Keating, you have five minutes.

MR. KEATING: Thank you. My name is Raymond Keating. I'm Chief Economist with the Small Business and Entrepreneurship Council, a non-partisan, non-profit advocacy, research, and training organization dedicated to protecting small business and promoting entrepreneurship.

Thank you for this opportunity to summarize my testimony on proposed tariffs on certain goods coming from China.

SBE Council has long noted the problems facing U.S. businesses, including small firms, when it comes to China's falling short on protecting intellectual property, for example. The daunting question is how should the U.S. proceed from a policy standpoint? Imposing tariffs that is taxes on Chinese consumer, intermediate, and capital goods imports merely serves to inflict damage on U.S. consumers, businesses, again including small businesses, and workers and, thereby, undermining U.S. economic growth.

The importance of free trade to the U.S. economy must be kept in mind throughout the discussion on trade policy with China. Free trade that is lowering or low governmental barriers to trade across borders among individuals and businesses provides a host of benefits, including lower prices and more choices for consumers, expanded opportunities for entrepreneurs and small businesses, and as individuals in businesses specialize in those areas where they have a comparative advantage and then trade with others, economic and productivity and income growth are boosted.

It's also important to keep in mind that more than 55 percent of all U.S. goods imports in 2017 were inputs for U.S. businesses. That is, they were intermediate goods or capital goods, part of the supply chain. So increasing tariffs or establishing quotas on imports is, in effect, imposing a tax increase on a wide array of U.S. small businesses, such as manufacturers.

Consider that among U.S. manufacturing employer firms, 75 percent have less than 20 employees. In fact, in terms of both exports and imports, most U.S. businesses involved in trade are small and mid-sized companies. For example, 76 percent of U.S. exporters have fewer than 20 employees, and the same goes for U.S. importers.

Zeroing in on U.S. trade with China,

the role of small business again becomes quite clear, with 54 percent of U.S. exporters to China having fewer than 20 employees. As for imports, 74 percent of U.S. importers relating to China have fewer than 20 employees, 85 percent fewer than 50 workers.

And in terms of the growth and the number of employer firms involved in trading with China, it has been nothing less than breathtaking with a number of U.S. firms exporting to China increasing by 668 percent from 2001 to 2016.

Given the prominent role that small businesses play on the trade front, it follows that the burdens of increased governmental costs on and obstacles to trade, such as via tariffs or quotas, will fall heavily on small businesses and their employees.

This brings us back to the question what is the best path forward on constructive trade policy with China? Rather than imposing tariffs and quotas that will only hurt U.S. consumers and small businesses, the U.S. needs to re-engage as a global leader for free trade. Specifically, rather than playing tit-for-tat protectionism, the U.S. would be better off in standing up clearly for free markets, free trade, and property rights, and showing other countries like China what the real path to economic growth is.

It is critical and far more constructive to make clear to China that its intellectual property violations only serve to undermine its own investment in economic growth. In fact, the best path forward would be to enter into discussions laying groundwork for a China-U.S. free trade agreement. Through that process, the U.S. would be able to constructively advance the cause for open markets and property rights in China. A free trade accord between the world's two largest economies would expand opportunities for entrepreneurs and small business and workers in both nations.

In the end, these proposed tariffs on imports from China would cause disproportionate economic harm to U.S. interests, including small or medium-sized businesses and consumers. The U.S. should step back from this proposal for increased tariffs and instead engage with China in a productive way through, if necessary, a multi-year effort of agreements that make real progress in reducing trade barriers and enhancing property rights with the ultimate goal, again, being a China-U.S. free trade agreement.

Such an effort would generate confidence among entrepreneurs, businesses, investors, and in the markets, and create significant benefits and opportunities for U.S. small businesses, workers, and consumers.

Thank you for your time and attention, and I look forward to questions and further discussion.

MR. BISHOP: Thank you, Mr. Keating. Our next witness is Jordan Haas with the Internet Association. Mr. Haas, you have five minutes.

MR. HAAS: Thank you. Thank you, members of the Section 301 Committee. Thank you for holding today's public hearing. My name is Jordan Haas, and I am the Director of Trade Policy at Internet Association. IA represents over 40 of the world's leading internet companies. We support policies that promote and enable internet innovation, ensuring that information flows freely across national borders.

The U.S. internet platforms are a significant driver of the U.S. economy. Internet companies represent an estimated six percent of U.S. GDP and account for nearly three million American jobs.

In China, many U.S. internet companies are either blocked from operating or are severely restricted. It has been estimated that approximately 3,000 internet sites are totally blocked from the Chinese marketplace, including many of the most popular sites in the world such as Facebook, Twitter, Tumblr, Google Search, YouTube, and Dropbox.

China's ongoing intellectual property rights violations force technology transfer policies and state interventions harm the digital industry. Moreover, China imposes numerous requirements on internet services to host, process, and manage data locally within China and places significant restrictions on data flows entering and leaving the country. China's business environment has cost U.S. services billions of dollars in potential business.

We appreciate that the administration has acknowledged and is trying to address these trade barriers. Tariffs, however, are the wrong solution to real problems.

Internet companies understand that tariffs are hidden, regressive taxes that would be paid by U.S. consumers in the form of higher product prices and by hurting companies' abilities to invest in future technology. Many of the products that are currently on the proposed list impact both how internet companies function, what these companies sell, and products that are key components of the next generation of innovation. Enacting these tariffs will decrease the global competitiveness of American technology firms.

U.S. manufacturers of high-technology products who rely on imported industrial inputs to support jobs in the United States will see import costs increase due to tariffs. Imported hard drives and parts and accessories of printed circuit assemblies are essential components in technology products manufactured in the United States, such as the servers that internet companies depend on.

Levying of tariffs will represent a tax on these U.S. manufacturers, workers, and the products they build and export. This potentially will make these products more expensive, raising the price of finished goods and negatively impacting U.S. jobs as foreign competitors gain market share.

Optical fiber cables made up of individual sheet fibers and bus bars are essential components of the U.S. information and communications technology industry and are widely used in data centers which form the backbone of the internet. While often assembled and sourced in China, these products feature key components made in the U.S. Including them on this list will negatively impact how the digital industry works.

Smart thermostats are an example of a product of the internet of things sector where the U.S. is a global leader. By 2020, the global internet of things market is projected to grow to $457 billion, and smart home products like smart thermostats will contribute to 14 percent of the market value.

U.S. developers of internet of things products largely conduct their research and development and develop the software behind this technology here in the United States and not in China. This is the real value-add driving U.S. smart product leadership.

In closing, we agree that it's time to address China's unfair trade practices, but we should do so in a way that doesn't punish

American firms and American families. Instead of unilateral tariffs, the administration should lead a coalition of countries that share our concerns about China and its unfair trade practices.

With that, thank you again for holding today's hearing and giving us the opportunity to testify. And I look forward to answering any questions.

MR. BISHOP: Thank you, Mr. Haas. Our final witness on this panel is Andy Binder of Office Supply Solutions with HP, Incorporated. Mr. Binder, you have five minutes.

MR. BINDER: Thank you and good afternoon. I'm Andy Binder, Vice President and General Manager of the Office Supply Solutions at Hewlett Packard. I've been with HP 29 years, serving in various engineering, sales, and marketing roles, and I appreciate the opportunity to testify today regarding the impact of certain of the proposed tariffs would have on HP's technology leadership. I will offer an alternative solution that can achieve the same results without the unintended consequences of broad-based tariffs.

HP's print business is IP-intensive and the company's substantial R&D investment have helped build long-term economic value and jobs. Infringers steal HP's IP and provide cheap rip-off for our ink and toner cartridges. In this regard, we're very supportive of the efforts to curb these abuses. We are concerned, however, that the proposed tariffs would actually help the infringers and, thus, are seeking a few HTS exclusions related to ink and toner cartridges.

HP is the worldwide leader of the design, manufacture, and sale of printing systems. This started with the innovation-related to our thermal ink jet printers, and we also developed the industry-changing laser jet brand of printers, which are now in homes and offices around the world.

Our technology leadership in print has been enabled by our significant investments in innovation. HP invests hundreds of millions of dollars in research and development on imaging and printing every year, resulting in over 19,000 patents worldwide related to various aspects of ink and laser-based printing technologies.

A significant portion of this investment is in our print-related R&D facilities located in California, Idaho, Oregon, and Washington, which together support thousands of high-paying U.S. jobs. Given the importance of IP development, protection, and the enforcement to our business, we appreciate the administration's commitment to assuring a level playing field for IP-intensive industries globally.

However, HP's business would be adversely impacted by a number of the proposed broad-based tariffs because it would still allow products that are tainted by IP violations to enter into the United States of America. Such tariffs would not distinguish between legitimate and illegitimate products and, therefore, would indiscriminately raise prices for all consumers.

Ironically, an across-the-board tariff would make these illegitimate products more accessible and attractive relative to the innovative products that customers might have purchased otherwise. Frankly speaking, for the printing supplies industry, these tariffs would do more damage to consumers and intellectual property right holders, like HP, than it would do to the IP-infringing products. Such results would conflict with the administration's goal of minimizing consumer impact and would not be effective at advancing the goals of Section 301 investigation.

We have certainly encountered IP-related challenges in China. However, we don't view broad-based tariffs as the most effective response. We have found Section 337 of the Tariff Act of 1930 to be the most effective tool because it completely excludes patent-infringing imports from the U.S. HP and others in our sector have been successful in combating IP violations by using Section 337.

In 2011, through several cases brought against Chinese firms, HP obtained exclusion orders that blocked imports that infringe our patents. These orders are still in effect today.

It is important to appreciate that 337 actions are not only effective in the U.S. but they are the cornerstone for effective IP enforcement worldwide, even in China. With respect to these products, we view Section 337 as a more surgical and effective treatment, rather than the blunt tool of tariffs. Tariffs will cause unnecessary collateral damage, including creating a market for IP-infringing products and increasing costs to consumers.

HP respectfully requests the administration exclude ink and toner cartridges specified in our submission from the proposed tariff list and encourage the expanded utilization of trade remedies already provided under Section 337 to exclude IP-infringing products from entering in the U.S. market. On behalf of HP, we appreciate the administration's consideration of our request.

MR. BISHOP: Thank you, Mr. Binder. Mr. Chairman, that concludes direct testimony from this panel.

CHAIR ALLEN: Thank you. Thank you very much for the testimony. Before we begin questions from the panel, I did want to make a plea to participants to consider in post-hearing submissions referencing specific HTS numbers where you have identified products. This is not with respect to this panel in particular, but I just would make that a sort of general admonition for all participants. That would greatly help us in sort of singling in and targeting in on what the concern is.

And with that, I will briefly allow our colleagues who have joined us for this panel for the first time to introduce themselves. And so I believe my colleagues over there have already introduced themselves, but, from the Department of Treasury, if you could introduce yourself.

MS. MITCH: Hi. I'm Sage Mitch with the Treasury Department.

MR. ADJEMIAN: And I'm Michael Adjemian, Senior Economist with the Council of Economic Advisors.

MR. O'BYRNE: And I'm Bryan O'Byrne from the U.S. Small Business Administration's Office of International Trade.

MR. WINELAND: Thank you very much. Ambassador Yerxa, thank you for your testimony today and the written submission. You counsel close cooperation with like-minded trading partners, as well as the goal of coming to the negotiating table to seek positive outcomes. I wonder if such efforts are unable to yield successful outcomes with the Chinese, I noticed you carefully used the word prior when you talked about avoiding unilateral actions prior to engagement with like-mindeds and with China at the negotiating table. Would you still counsel, if our efforts were not successful, would you still counsel avoiding trade actions against China?

AMBASSADOR YERXA: Well, first, let me just mention to the Chairman thank you for the point about HTS numbers. I think in our formal written submission from NFTZ companies, we did provide a number of those and will continue to offer, and I think a number of other associations are doing that in their written submissions.

Back to your question, I guess my immediate answer would be I think we should cross that bridge when we come to it. I do not want to suggest that there would never be circumstances under which the U.S. would be prepared to take action which might involve some reciprocal imposition of trade measures. In fact, the WTO system and the dispute settlement system does contemplate that for authorized retaliation measures or authorized response from parties for violations.

But I think we have a long way to go in, first of all, building the global consensus about China's practices and a long way to go in outlining and defining exactly what we expect with China. And I think, you know, I don't want to rule out, I mean, I was a trade negotiator myself, I know that you all in government, you know, you need to have mechanisms which can get the attention of trading partners and that's why 301 is there. I think we're a long way from that point and the points people make here about the potential unintended consequences and harms.

I think if the U.S. gets to the point of doing that, it should do what it historically did in 301 investigations which you're doing now with these hearings, provide enormous amount of input from the private sector before ever announcing a retaliation list. I think that would be a much better way to go and that was certainly done in past exercises, rather than announcing a list and dealing with the consequences of the concerns of U.S. industry afterwards. I think there needs to be more up-front consultation. I think that has come after a long period of defining what we want China to do and getting the rest of the world on side in that effort.

MR. ADJEMIAN: Ms. Chandler, could you please provide us a post-hearing submission listing the 193 HTS codes identified to cause harm by your members and highlight those for which alternative sourcing is not available?

MS. CHANDLER: We already submitted that.

CHAIR ALLEN: Thank you. And to the extent - it's entirely up to you, but to the extent that the chart that you held up earlier is not in the record, you may wish to submit something along those - if it is already, my apologies.

MS. CHANDLER: It's on the record.

CHAIR ALLEN: Okay, great.

MS. PETTIS: Mr. Bindler, I'm sorry, Binder, in your testimony, you stated the view that increased tariffs would favor illegitimate ink and printer head products. Could you elaborate on the connection?

MR. BINDER: I'm sorry, one more time?

MS. PETTIS: In your testimony, you stated the view that increased tariffs would favor illegitimate ink and print head products. Could you elaborate on the connection?

MR. BINDER: Sure, yeah, thank you. So we're a global manufacturer. We manufacture all around the globe, including China, and so those tariffs in the HTS codes are broad, so that means that any products that fit those HTS codes coming from China would receive the tariff.

And so if you have these products where they have stolen intellectual property and they're producing them at a lower cost than we are producing them at, the tariff they will pay is much lower than the tariff that we would pay.

And so we're actually going to have an effect that's a higher price for consumers than would be seen by these illegitimate products that have a much smaller tariff placed on them.

CHAIR ALLEN: Just a follow-up on

that, you mentioned in your testimony that Section 337 has been a very effective tool for you and for your company.

Are you, by pointing to the concerns about the impact on infringing products, are you suggesting that it's not a sufficient remedy or do you still view that as an adequate remedy to address the impact of those infringing products?

MR. BINDER: Well, compared - so the 337 is the best remedy. It's effective. We could always double down on our investment with the help of the CBP to get even more than we have today, but it's been a very effective tool and we appreciate it.

The difference is it's like the difference between a scalpel and a hammer for us because now we can go specifically at those people who are violating intellectual property versus, like you said, broad-based tariffs against us, HP included, for products that we manufacture in China.

So it is the best tool. It is very

effective. We could double down our investment on it and that would be very much appreciated by myself and my company.

CHAIR ALLEN: Thank you. Just to clarify, you're not suggesting that Section 337 is, you know, a tool that would address all of the concerning practices that we have articulated in our 301 report, right? So in terms of Section 337 as a substitute for tariffs, you're not saying that it would address everything?

MR. BINDER: Well, in terms of the categories for ink and toner cartridges, it would address it for importation in the U.S. It would address it.

MR. MOORE: My question is for Mr. Keating. In your statement, you had noted the damage to small businesses stemming from poor intellectual property protection in China and also how multi-year agreements could help make progress in addressing this issue.

The question I have, however, is one of which areas of IP protection need the most urgent attention from the perspective of small businesses?

MR. KEATING: Well, actually we've heard from our members across the board in terms of tech, high tech, golf manufacturing, golf club manufacturers.

I cover some of that in the book that I wrote on intellectual property kind of laying out examples industry by industry, really, where there are real challenges in the international arena in general in protecting intellectual property, so I think it does cut across industries.

And it's an issue at home as well obviously, so it's not unique to the international arena, but from a small-business perspective, these trade agreements help small businesses much more than larger businesses, right, because obviously a large business has, you know, the legal department and the small business does not.

So the fact that you can

institutionalize as much as possible, that's great for small businesses. Now, again, the question is, like I said in my testimony, how do you go about dealing with China in a constructive way where you don't do damage elsewhere?

MS. MITCH: Thank you. My question is for Ms. Hampl. Could you provide additional information on the cases noted in your statement where U.S. businesses own production facilities in China that are producing goods for the U.S. market that would be on the tariff list?

MS. HAMPL: I'm sorry, can you just repeat that really quick?

MS. MITCH: So this is, you noted in your statement cases where U.S. businesses own production facilities in China that are producing back for the U.S. market that would be affected by the tariff list, and I just wondered if you could elaborate a little bit on any of those cases?

MS. HAMPL: Thank you for the question. So USCIB is an organization. We're multi-sectoral by nature, so we're trying to represent kind of all of the different sectors and the scenarios across the board.

And one of the issues that we wanted to address with that component of the testimony, and it was also in our written submission, was to address the industrial inputs because a lot of this - you've heard probably a lot specifically, you know, from steel companies. You've heard a lot on the kind of retail and consumer side, and this is a portion that we felt had really not been appropriately addressed.

I don't know to what extent you've heard this from perhaps specific companies that have already testified as well, but this is an example, and I don't have a very specific story to go with this kind of example. I can submit more detailed information from perhaps some of the companies that we receive these examples from.

But the issue that it addresses is that the tariffs or these broad-based tariffs seem to operate under what we would see as kind of a false dichotomy that they will necessarily help U.S. business, that they will somehow make us more competitive, when in fact the way that our global companies operate with their global supply chains, it is not quite as simple. It is not either you produce in the U.S. or you produce elsewhere and there is one reason for doing it. It is really quite a complex scenario.

So that example that you pointed to is one where there are complex ownership structures and where, even though the company is not located on U.S. soil, U.S. ownership actually has results of positive effects in terms of U.S. jobs and benefits to the U.S. economy that are very direct even though on its face, it may look like it is a Chinese company that these tariffs are targeting.

MR. O'BYRNE: Ms. Ennis, your submission includes an attachment with many recommendations for addressing issues identified in the Section 301 investigation. Many of these matters have already been the subject of commitments by the Chinese government in previous negotiations.

However, as detailed in the written report, those commitments have not been implemented, so what in your view is the best way to ensure that China will follow through on its commitments that you call for in your statement?

MS. ENNIS: Diligence, and that's the bottom line to all of this. I will commend many of those of you who are on the panel today, the fact that you have negotiated good outcomes, and the only way that you can guarantee implementation is that you are diligent in following up and in ensuring that the, both the specific wording of what you have committed to and the spirit behind it of seeking that fundamental change that many members of the administration have spoken about is actually implemented, but the only way that you can do that is through continued dialogue and engagement on not only how the market is functioning, but how companies are experiencing the market.

MR. O'BYRNE: Thank you.

CHAIR ALLEN: Just a quick follow up from that, you mentioned WTO commitments, and existing rules, and the WTOI mechanism. Just to clarify, you're not saying that the WTO rules as they stand today are sufficient to address the range of practices identified in the 301 report as problematic?

MS. ENNIS: I would say this. I am not a trade lawyer, so I'm not going to take a position on whether USTR's views of its report, that everything other than the WTO case that you've brought is outside of WTO rules. It seems like a lot of things in that, but I will leave that to the trade lawyers to discuss, but I will say this.

If the vast majority of the things that were identified in the 301 report are indeed outside of WTO commitments, that seems like a really compelling reason to be working with our trading partners at updating what those commitments are to make sure that these problems don't continue.

MR. SULEWSKI: This is Adam Sulewski for DHS. This question is for the National Association for Foreign Trade Zones. From your testimony and your submission, we understand that you are advocating that Chinese goods be exempt from additional duties if those goods are entered into foreign trade zones. Would there be some way to adapt such a broad exclusion without undermining the effectiveness of the proposed trade action?

MR. AUTOR: Just to clarify, I don't think we were suggesting that Chinese products as a whole be exempt from being entered into, when they're entered into a U.S. foreign trade zone.

What we want is some clarification on how those products will be treated when the presidential proclamation specifies that subject goods imported and admitted into a U.S. foreign trade zone have to be admitted in privileged foreign status.

That is a very specific requirement

which basically attaches the duties at the time of admission onto those imports, and those duties then have to be paid when the final product incorporating those inputs leaves the zone as entered into U.S. Customs territory.

So the way the presidential proclamations have issued in this and other trade remedies actions has created a great deal of uncertainty about how the privileged foreign status would work in these contexts, and we have asked for some better language that would provide improved guidance to FTZ manufacturers.

And in addition, one of the problems in the steel and aluminum was it attempts, as far as we read it, to do a reach-back to impose the duties, the additional duties on goods that were already in a foreign trade zone under privileged foreign status prior to the effective date of the duties, which we don't believe has a prior precedent.

The way the privileged foreign status works for FTZs is that it essentially acts like an entry. When the goods are admitted into a zone under privileged foreign status, the duty applicable at that time is the duty that is assessed when those goods leave the zone and are entered into U.S. commerce.

MS. PSILLOS: Kate Psillos from Commerce. My question is for the Internet Association. Mr. Haas, you testified that the Internet Association recognizes the numerous problems your members encounter in China, but believe that the proposed tariff action is the wrong solution. In your view, what else should the United States do to address China's unfair trade practices?

MR. HAAS: Yeah, as I mentioned also in the - and thank you for the question. As I mentioned also in the testimony, we believe very strongly that a coalition of other countries is the strongest mechanism for getting China to move forward, and I think we saw where that can be successful in laying out policies previously in dealing with China and where past trade agreements may have looked at multiple ways to put pressure on China.

So I think those types of policies we continue to support, but again, for many of our companies that are strong players globally, they're not able to compete in China because of the practices in China.

CHAIR ALLEN: Following up on that, very interesting comment about coalitions and so forth. I just wonder if you could elaborate a little bit on what your thinking is on how that would work?

You know, the idea of a coalition of countries is sort of one thing, but what you think might be an appropriate path, you know, that would be effective and would fulfill what you're thinking about?

MR. HAAS: Well, again, for our businesses, I laid out in my testimony a number of the key issues that are blocking our businesses, so having a list that we can get other countries to coalesce behind, and then taking that to China and looking at where China does practice and where they are trading, and engaging with those countries through a clear list of objectives that would open the market for internet-based businesses.

CHAIR ALLEN: Thank you, and I had just one additional.

MR. HAAS: Yeah, of course.

CHAIR ALLEN: And I wanted to commend you for listing all of the HTS codes very clearly in your submission. We appreciate that very much, so thank you for that.

MR. HAAS: I didn't read it, but I assume you could.

CHAIR ALLEN: Well, it's here, so it's very helpful, but I just wanted to make sure that in each case, we were clear in terms of whether there are alternative sources from China for some of these inputs.

I think you mentioned a reference to motherboard parts and other countries potentially having the capability to produce these, but in any event, I don't know if you have any general comments you wish to make here or in post-hearing briefs about the alternative sourcing issue?

MR. HAAS: Yeah, so again, with the motherboards, 95 percent of them are coming from China, and when you think about what's produced here and how that becomes the backbone of the businesses here for the internet-based business, that is a huge share.

So being able to match that size of demand for the need here - and remember, America is the leader in internet economy and with internet businesses for a reason: because we're able to be at the forefront of technology and be able to house the servers here. So having products that we're able to use is useful. So 95 percent is a huge percentage and five percent just is not going to match.

CHAIR ALLEN: Any additional questions? With that, we will conclude the panel. We want to thank everyone for their time this afternoon. This has been extremely helpful for us and we appreciate your patience with our many questions. So I think at this point, we will take a 10-minute break and resume at 2:45.

MR. BISHOP: We are in recess until 2:45. I would invite our next panel to come forward and be seated and the last panel to take a seat in our reserved witness area.

(Whereupon, the above-entitled matter went off the record at 2:35 p.m. and resumed at 2:44 p.m.)

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

CHAIR TSAO: Good afternoon, my name is Arthur Tsao. I'm an Assistant General Counsel at the U.S. Trade Representative's Office and I'm taking over for my colleague as the Chair for the next two panels. I believe we have some new members to the Section 301 Committee and I will ask her to introduce herself.

MS. KORKOS: Hi, I'm Nicole Korkos from the Council of Economic Advisors.

MR. BISHOP: Our first witness on this

panel is Judd Larned from Culligan International Company. Mr. Larned, you have five minutes.

MR. LARNED: Members of the Committee, thank you for the opportunity to appear today. My name is Judd Larned. I'm the President of Culligan International North America. Culligan is a U.S. company founded in 1936.

It specializes in the manufacture and distribution of water treatment and filtration systems. We're based in Rosemont, Illinois and directly employ approximately 300 people in the United States. Today our products are in more than two million homes and countless businesses across the United States.

Culligan respectfully requests that the USTR remove water filtration and treatment products and parts from the list of products in which USTR intends to impose increased tariffs.

We expect that the proposed tariff on these products would affect approximately 85 million or 70 percent of our sales to our independent distributors, and overall, the estimated cost to Culligan of the proposed tariff would be almost $6 million.

The tariffs could also have a significant detrimental impact on our over 500 independent Culligan franchises which operate across 49 states. These small businesses each employ on average about 10 people, so there are more than 5,000 employees of small businesses supported by the Culligan supply chain today.

If they absorb the price increase of the proposed tariff, or if Culligan's ability to supply products were disrupted, these franchises would almost assuredly lose jobs.

Our subsidiary, Paragon Water, will also be negatively affected. Paragon is a U.S. company based near Clearwater, Florida. The Paragon facility in Florida manufactures and exports carbon block to China for incorporation in its water filtration products which are then imported back into the United States.

The proposed tariff would force Paragon to shut down the operation of several crucial product lines in their company-owned factory in China, including refrigerator filters, which would cause Paragon to reduce its U.S. workforce significantly as demand for carbon block would be significantly reduced.

Paragon expects that their estimated cost of the proposed tariff could be up to $10 million next year for a business with a revenue of only $70 million.

Culligan, our independent distributors and Paragon all have very limited ability to bear the burden of a significant cost increase. Should we attempt to absorb these costs, we would have to redirect funds that are currently intended to drive growth in our business.

We are currently underway with plans to increase our employee base by 10 to 15 percent in the United States and these plans would have to be reconsidered if the tariffs were put in place.

We may have to - therefore, we may have to consider raising our prices by up to 25 percent to the detriment of our customers who are mainly single-family households and small businesses.

In the water softener market, this could lead to a $650 per unit on average increase, and in the water filtration market, it could lead to a $250 per unit average increase. Any increase in price would likely significantly depress sales and further harm our business and that of our distributors.

In addition, elevating costs in this market could have an impact on U.S. citizens being able to access clean, healthy drinking water in their homes when there are issues at the local municipal water supply, which unfortunately are happening with greater frequency as our infrastructure ages.

A tariff increase on our products would also put both Culligan and Paragon at a disadvantage with respect to our competitors. For example, in the drinking water systems market, one of Culligan's key competitors is

Haier, a Chinese-owned company.

Our understanding is that Haier's supply chain and drinking water systems are sourced from Kemflo, a Taiwanese company, Microfilter, a South Korean company, and from Paragon, our U.S.-based subsidiary.

Paragon would be affected by the proposed tariff increase, and as a result, Haier could decide to source exclusively from the Taiwanese and South Korean manufacturers. In this way, Haier would likely be able to insulate itself from the tariff increase.

In short, the Chinese company, Haier, would come out the winner while two U.S. companies, Culligan and Paragon, would be placed at a severe competitive disadvantage.

The proposed tariff on our products would ultimately not advance USTR's objectives in addressing China's technology transfer and innovation policies.

USTR has not found that Chinese manufacturers of water filtration and treatment systems like ours have benefitted from Chinese industrial policies or any of the harmful practices identified in the Section 301 report.

In addition, our products are not high technology products. For these reasons, Culligan urges USTR to remove our water filtration and treatment systems from its list of targeted products.

Our products are only a small portion of the two tariff headings I have identified, and our written comments suggest a way for USTR to carve out a narrow category of products like ours that are incorporated directly into plumbing systems and used for softening or filtering water flowing through sinks, refrigerators, showers, toilets and tubs. This approach would be consistent with USTR's focus on minimizing the impact on consumers and small businesses. Thank you for your time today.

MR. BISHOP: Thank you, Mr. Larned. Our next witness is Ryan Rasmussen with Dover Artificial Lift. Mr. Rasmussen, you have five minutes.

MR. RASMUSSEN: Thank you. Good afternoon. My name is Ryan Rasmussen. I'm here today on behalf of Apergy ESP, LLC where I serve as the Vice President and Managing Director of electric submersible pumps or ESPs division. I have worked in the artificial lift field for nearly 15 years.

Apergy ESP Systems, LLC is a former subsidiary of Dover Corporation and is based in Broken Arrow, Oklahoma. As of May 2, 2018, we are now a subsidiary of Apergy Corporation headquartered in The Woodlands, Texas.

We are all aware of the resurgence of U.S. oil and gas production in the shale plays due to the advancements of horizontal drilling and fracking, hydraulic fracturing. What you may not have heard about are the ESP systems that are actually used to produce these wells after the frack has been completed.

ESP systems are an essential form of artificial lift used by the U.S. oil and gas industry to produce most oil wells, including the prolific shale wells of the Permian Basin of Texas and New Mexico and the Bakken Formation in North Dakota.

Our innovative ESPs optimize fuel production and mitigate risk in challenging well scenarios such as high-volume wells, horizontal and highly deviated wells, and deep high-temperature wells.

We import certain ESP components, power cables, motor leads and surface transformers from China. The components are imported under HTS subheadings 85446020, 85446040, 84139190, and 85042100.

The U.S. Trade Representative has included these ESP components in its list of products subject to a 25 percent tariff pursuant to Section 301.

For the reasons I will be discussing today, a tariff on these imported products will undermine the administration's stated policy objectives of protecting American manufacturing jobs, promoting lower-cost energy sources, and reducing our dependence on foreign oil.

Although we import foundational ESP components from China, these products are simply inputs which support downstream American manufacturing jobs in the United States in our 100,000 square foot headquarters and technology center in Broken Arrow, Oklahoma and at our facilities in North Dakota and Texas.

Apergy employs over 2500 salaried and fully benefitted U.S. workers who design, assemble and customize application engineering systems in the United States. Our ESP systems support thousands of additional American jobs in the oil and gas sector.

The proposed tariff will cause Apergy's overall ESP system costs to increase by as much as 20 percent. These additional costs will be passed onto U.S. consumers through increased prices in the U.S. market.

Because ESP systems are used to produce 90 percent of U.S. shale, oil and gas wells, consumers in the industry will be forced to absorb these higher costs or look for alternative sources.

Like Apergy, other American suppliers depend heavily on China for ESP inputs, so the tariffs will put our foreign competitors at a significant cost advantage. Apergy and other U.S. suppliers will likely lose market share to our primary competitors which are Russian-based companies.

The tariff will also result in a rise in production costs for all the major shale, oil and gas producers that depend on a reliable and cost-effective supply of ESP systems. Such a substantial increase in costs would jeopardize these downstream businesses and their employees, and ultimately could lead to downsizing and layoffs.

At the same time, a tariff on ESP components will be ineffective in combating the Chinese intellectual property practices the U.S. government seeks to change. The basic imported components of the ESP system that I referenced today have been manufactured in China for nearly three decades and do not contain sensitive technology or intellectual property.

These lower costs and technology inputs from China are foundational elements that support higher-level operations in the United States. Again, the components are uniquely configured into a more complex system by our application and field engineers in the United States, not in China.

For all of these reasons, the tariff on ESP components and subcomponents is detrimental to important U.S. interests and policy goals. We respectfully request that these products be removed from the USTR's list of covered products. Thank you.

MR. BISHOP: Thank you, Mr. Rasmussen. Our next witness is Jon Stokes with The Flexitallic Group. Mr. Stokes, you have five minutes.

MR. STOKES: Good afternoon. My name

is Jon Stokes. I'm the CEO of The Flexitallic Group. I appreciate the opportunity to appear before the 301 Committee and address the proposed inclusion of spiral arm gaskets under HTS 8484.10.00 on the annex list.

Flexitallic developed and patented the first spiral arm gasket used in the United States in 1912. Flexitallic is the leading global manufacturer of spiral arm gaskets and the market leader for the production of spiral arm gaskets in the United States.

Flexitallic has always owned and controlled the intellectual property used to manufacture its products. Today, the owner of that technology and intellectual property is Flexitallic Investments, Inc., a U.S. subsidiary. None of it is owned or controlled by any entity in China.

Our U.S. intellectual property and technology is used in China by Flexitallic Gasket Technology, another wholly-owned Flexitallic subsidiary, to produce a significant quantity of standard spiral arm gaskets in our own facility that Flexitallic sells in the United States.

As Flexitallic has previously indicated, the proposed inclusion of spiral arm gaskets on the annex list will cause a disproportionate negative impact to the economic interests of the U.S. economy, including U.S.-based manufacturers of spiral arm gaskets such as Flexitallic, and the U.S.-based refineries, chemical plants, petrochemical plants, power plants and pipelines that are the end users of spiral arm gaskets.

Additionally, imposing tariffs on spiral arm gaskets will have no practical effect or impact on the elimination or reduction of the alleged unfair trade practices of China for at least two reasons.

First, these products have no connection to any of those alleged unfair trade practices. These tariffs address practices that, in our experience, are not found in this industry. Targeting a remedy for unfair trade practices against an industry that trades fairly almost certainly dilutes the effectiveness of that remedy.

Second, these tariffs, if imposed, will not change the volume or profit margin for Chinese producers. End user demand for spiral arm gaskets is driven by maintenance activities and construction projects.

A tariff-adjusted higher price will not reduce near or midterm demand. Most U.S. customers and end users view standard spiral arm gaskets as a commodity and price as the primary factor in the U.S. market. As a consequence, Flexitallic and virtually all of its U.S. competitors source their standard spiral arm gaskets from China.

Additionally, there is no significant alternative production in the United States. The domestic industry produces higher-end, more technologically sophisticated gaskets, and even with the tariff applied to imports, would probably not find domestic production of standard spiral arm gaskets economically desirable.

In fact, the recently introduced steel tariffs have already had the effect of increasing the cost of domestically sourced raw materials, further increasing the costs of U.S. production.

As a result, in the near and middle term, the only effects of the tariffs on this market is that end users would pay 25 percent more. Chinese producers probably will not see their margins or volumes impacted at all.

There is no intellectual property related to standard spiral arm gaskets that can be or would be stolen simply because the U.S. manufacturers of these products have made them in China.

Flexitallic Gasket Technology has operated in China for several years and the government in China has never exerted any pressure on Flexitallic to transfer any technology or intellectual property to China. China has never taken any action regarding spiral arm gaskets that has placed Flexitallic at any competitive disadvantage to any Chinese company.

The proposed tariffs on spiral arm gaskets have a substantial and disproportionate negative impact on the U.S. economy. The increased costs will be passed onto the variety of end users of spiral arm gaskets, and those increased costs to the end users will ultimately be passed onto the U.S. consumers of gasoline, oil, natural gas, plastics, petrochemicals, chemicals, paper goods and electrical power.

Flexitallic respectfully requests that this 301 Committee delete HTS 8484.10.00 from the annex list because the inclusion of these products will only harm the U.S. economy and the interests of the U.S. gasket manufacturers, their distributors, the U.S. end users who purchase spiral arm gaskets and the U.S. consumers of the products produced by those end users.

I have brought a sample of a spiral arm gasket, and I would close by saying if you're looking for a remedy that punishes Chinese companies engaged in unfair trade practices without damaging U.S. workers and companies, tariffing this product is not that remedy. Thank you.

MR. BISHOP: Thank you, Mr. Stokes. Our next witness is Cammie Teems of Bestway (USA), Incorporated. Ms. Teems, you have five minutes.

MS. TEEMS: Thank you. Hello, ladies and gentleman. My name is Cammie Teems and I'm the risk manager at Bestway (USA) headquartered in Phoenix, Arizona.

We thank you for this opportunity to comment and bring our concerns to light in what we view could be potential unintended consequences with these newly proposed tariffs.

Bestway is the industry leader in the over $500 million above ground pool market - we commonly refer to this as AGP, so that's what I will be saying - and has devoted its efforts to strengthening research, design, development and manufacturing of high quality and innovating outdoor leisure products.

We also actively invest in and pursue more efficient alternative energy sources and material recycling initiatives with an emphasis on corporate sustainability and aiming to minimize our impact on the environment.

Bestway believes that imposing the proposed duties on the four HTS codes that we identified in our written comments would cause disproportionate economic harm to the U.S. pool market, bring no economic or employment growth to the U.S. and be ineffective in eliminating the alleged acts, policies and practices of the Chinese government.

The U.S. pool industry can be divided into two basic categories, above ground pools and inground pools. Most AGP products require replaceable filter cartridges for their filtration systems.

These filters do not include a high degree of technology and are not typically IP-intensive. To illustrate this point, I have brought one of our cartridges for you to look at the simplicity if you're interested.

And to the best of our knowledge, the filter cartridges we currently import for these AGP products are not manufactured anywhere within the U.S. and there is currently no interest in producing these low-tech, relatively inexpensive products.

Bestway believes the proposed tariffs would not only affect the AGP market, but would also have an impact on inground pool markets where it is well known that potential inground pool customers typically start out as AGP owners.

It would make sense if your consumers are purchasing AGPs at lower cost, then fewer consumers will be making the transition to inground pools.

According to industry research studies, the AGP industry has grown over the last five years due mainly to macroeconomic improvements. It's expected that revenue within this industry will expand even further over the next five years, but this expectation is predicated on the continued improvements of the macroeconomic variables.

Needless to say, a tariff increase from zero percent to 25 percent on these types of products would not only be detrimental to the commercial interests of U.S. retailers, but would also serve to reduce the market share of this industry significantly.

Additionally, when all is said and done, it will be the retailers, consumers and customers who will be expected to cover such an increase in costs.

In conclusion, Bestway respectfully requests that the USTR either eliminate the four subheadings identified in our written comments or we kindly request consideration be made to clearly define AGP filtration systems versus, say, the inground filtration systems in an effort to distinguish this low-tech product associated with the AGP systems.

Again, we thank you for this opportunity and appreciate your time and consideration.

MR. BISHOP: Thank you, Ms. Teems. Our next witness is Rusty Tharp of Goodman Global Incorporated. Mr. Tharp, you have five minutes.

MR. THARP: Thank you very much. Good afternoon, Mr. Chairman and Members of the Council. I am Rusty Tharp, Director of Regulatory Affairs for Goodman Manufacturing Company. Goodman is part of the Daikin Group.

I'm here today to respectfully request that the USTR remove certain parts that Goodman uses in the production of heating, ventilation and air conditioning equipment, also known as HVAC, from the proposed list of products subject to additional tariffs. The five specific codes are written in your written testimony.

I do want to provide you with a brief background on Goodman and Daikin. Daikin is one of the largest HVAC manufacturers in the world and Goodman is one of the largest HVAC manufacturers in the United States.

In 2012, Daikin acquired Goodman. Why

is that important? It's important because Daikin had a vision of making the United States a major manufacturing center for its HVAC products sold in North America, and it has followed through.

After acquiring Goodman, Daikin and Goodman constructed a factory outside of Houston, Texas at an investment cost of half a billion dollars. This facility, which began producing HVAC equipment about a year ago, is known as the Daikin Texas Technology Park or DTTP.

It's no ordinary plant. It's the third largest manufacturing plant in the United States. To put it in perspective, its roof covers the equivalent of 74 football fields. Daikin and Goodman anticipate having 7,000 skilled American workers at the DTTP by 2020.

Included within the DTTP is the North American Research and Development Center which has already resulted in a two-and-a-half times increase in the number of engineers and technical professionals since the acquisition of Goodman by Daikin in 2012.

The goal of Daikin and Goodman is to manufacture as many Daikin and Goodman products for the North American HVAC market as possible at our new DTTP facility.

In order to produce these products at the DTTP, Goodman purchases parts from the United States as well as globally, including from China. The imposition of the 25 percent tariff will negatively impact Goodman and the American consumer by significantly increasing its cost of operating in the United States.

Goodman believes that it is a poster child for what President Trump and this administration is trying to accomplish, and that is making U.S. manufacturing great again, but imposing these tariffs on some HVAC parts used by Goodman, a company investing very heavily in U.S. manufacturing, creating significant new jobs, transferring R&D to the United States and producing new and innovative products in the United States would be counterproductive to the administration's goals.

At the same time that the tariffs will harm Goodman, its competitors that manufacture finished products in facilities outside of the United States will not be impacted by such tariffs.

Because several other manufacturers who sell HVAC products in the United States have production facilities outside of the United States, especially in Mexico, the finished HVAC products that they import will not bear the same cost because their finished products would not face additional tariffs when sold in the United States.

In other words, if the tariffs are imposed on HVAC parts at issue, it will incentivize Goodman's competitors to produce more finished products in Mexico. We do not believe that this is the result that the administration intends.

As stated in our written testimony, the HVAC parts that Goodman is importing are produced from mature technologies that are not considered by China to be strategic or advanced. In addition, the HVAC parts imported by Goodman are not going to advance China up the value chain.

I would like to specifically mention rotary compressors for HVAC products which would be imported under HTS U.S. Code A414.30.80. There are no U.S. manufacturers of rotary compressors for HVAC products.

As noted in our written comments, rotary compressors are decades-old technology and including these products in the 25 percent tariffs is simply a tax paid by the U.S. consumer.

In short, imposing tariffs on imports of HVAC parts that Goodman imports from China would not influence the Chinese government to alter or change the policies and practices identified by the USTR in its Section 301 report.

In conclusion, Goodman applauds the administration's efforts to remedy the intellectual property issues impacted by China's

IP policies and practices. Nevertheless, the additional tariffs that would be imposed on certain HVAC parts that Goodman imports from China would have a detrimental impact on Goodman and our customers.

Harming a company like Goodman who is investing very heavily in U.S. manufacturing should not be the goal or unanticipated consequence of the tariffs.

Therefore, Goodman urges the USTR not to impose a 25 percent on rotary compressors and other parts for HVAC products that we use in our manufacture of HVAC products in the United States. Thank you for the opportunity to comment.

MR. BISHOP: Thank you, Mr. Tharp. Our next witness is Dave Allen with Vista Outdoor. Mr. Allen, you have five minutes.

MR. ALLEN: Thank you. Good afternoon. My name is Dave Allen. I'm the Group President of the Outdoor Products Segment of Vista Outdoor.

Vista Outdoor is a leading global designer, manufacturer and marketer of consumer products in the outdoor sport and recreation markets.

We serve these markets through a diverse portfolio of brands that produce -- or that provide consumers with a range of performance driven, high quality and innovative products including sporting ammunition and fire arms, sports optics, golf range finders, outdoor cooking solutions, hydration systems, performance eye wear, action sports helmets and goggles, and standup paddle boards.

Our ability to supply quality, affordable products, is threatened by the perspective Section 301 tariff list. Under this proposed initiative, approximately 150 of our Bushnell and Camp Chef products are impacted.

These products are covered by six different HTS eight digit subheadings, and include GPS range finder devices for golfers, rifle scopes, and other products for hunters and sportsmen, outdoor water heaters used to bathe pets and fill children's pools, and hose adaptors for outdoor propane grills.

We appreciate the support the administration's goals. I'm not here to argue about the approach of using Section 301 trade sanctions against China. I understand they used a broad approach aided by an algorithm in developing the list totaling 50 billion dollars in imports from China.

The problem is that the broad brush approach sweeps up a lot of niche consumer products that in our judgement will inflict more harm on the U.S. than China.

I respectfully suggest that imposing punitive tariffs on things like rifle scopes and range finders, small outdoor water heaters, will only lead to higher costs for hunters and golfers, dirty dogs and cold kids with no impact on China's IPR and industrial policies.

I will elaborate on this and conclude by offering options to avoid harm on these consumer markets. We employ 45 hundred total employees in the U.S.

And are probably best known for our shooting and camping products sold to consumers under our Bushnell and Camp Chef brands. Which are headquartered in Kansas and Utah respectively.

Hunters, target shooters, and bird watchers consider Bushnell a reliable, go to brand. Bushnell also offers high quality, cost-effective devices to help golfers better navigate golf courses. And who wouldn't want some additional help with that?

So if the 25 percent tariff is applied, we estimate our duty costs would increase nearly threefold. The higher costs would be meaningful and substantial, affecting our future investment plans in the United States.

Unfortunately, these costs would be passed on to consumers causing our retail prices to simultaneously increase. This likely will have a negative effect on sales and our bottom line, especially since all of our products on this list are intended for the mass market.

This means that ordinary Americans would be affected the most. We do not believe USTR intentionally captured our products, because we understand the methodology used was specifically meant to avoid consumer goods.

We think that our products are impacted simply because of their eight digit HTS classifications, which include a wide variety of other products that are not consumer goods.

Although considered innovative and technologically advanced within each market segment, the impacted products are not the type of high-technology products China is targeting with it's Made in China 2025 program.

These are not military grade rifle scopes. They are mass market products for the average hunter or target shooter.

The propane adaptors are meant for the average backyard barbeque. They are not industrial grade gas valves.

The inline water heaters are for rinsing off at the beach, washing pets, filling kiddie pools, and are not high capacity inline heaters for building infrastructure.

Since our products have been swept up in the trade maelstrom inadvertently, I would like to offer options to resolve the problem. One option would be to simply drop the identified eight digit tariff subheadings from the list.

We think that this is viable as the eight digit HTS subheadings do not seem to contain critical products on an MIC 2025 list. Another option would be to keep the eight digit subheadings but exclude certain unintended products.

Our submissions include language based on objective criteria that customs and border protections could easily enforce. I note that antidumping and countervailing duty orders often apply to portions of HTS headings.

The third option would be to create additional ten digit breakouts based on the definition we provided in our submission.

We recognize that there may be time constraints on this last approach. However, we think that it is viable and clear cut.

Whichever way you choose to better target the Section 301 list, we implore you to do so. The Administration said that it wanted to minimize the impact on American companies and consumers when compiling the list. Which is the right thing to do.

Failing to remove these products from the 301 tariff list will not have any meaningful impact on China, but as currently constructed, will significantly hurt Vista's ability to provide outdoor recreational products to ordinary Americans at practical prices.

Thank you for considering our comments. And we hope to work with you to ensure American companies and consumers are not hurt by the Administration's 301 trade actions. Thank you.

MR. BISHOP: Thank you Mr. Allen. Our

next witness is Kathleen Clas with Kodak Alaris, Incorporated.

Ms. Clas, you have five minutes.

MS. CLAS: Thank you. Good afternoon. My name is Kathy Clas. I'm the Director of Global Business Operations at Kodak Alaris.

I've been at Kodak Alaris for four years, and with the Eastman Kodak Company prior for 32 years. And I've been in multiple functions and business unit positions.

I want to thank you for your time and consideration today to exclude the noted products in our submission from the Section 301 action. Kodak Alaris is an independent global technology company formed in 2013. It's a spin off from Eastman Kodak Company.

Although we license the Kodak brand in our company name and for our products, we are a standalone, privately held company. Kodak Alaris has two primary business units that are the subject of these comments.

The Alaris Division, a leading

provider of document and information capture solutions. And the Kodak Moment's Division, a provider of retail photo kiosks that you see in retail locations such as CVS.

The Alaris Division portfolio includes document scanners, software and services, and are available worldwide. A significant portion of our revenue is generated in the United States.

We are a trusted technology partner for federal, state, and local governments in the U.S., the U.S. military and vertical markets such as healthcare, banking, insurance, education, transportation, and logistics.

Some of our top customers are the Department of Homeland Security, the IRS, the Department of Transportation, the Supreme Court, many local DMVs, many large educational institutions such as Duke, Texas A&M, University of Maryland, and FedEx.

The scanners we sell range in price from five hundred dollars to 90 thousand dollars per unit. They're manufactured in China and imported for sale in the U.S. And are used for numerous business applications such as the U.S. census processing.

I'd like to share with you why the proposed actions do not resolve the IP concern. And in fact cause new substantial concerns for U.S. customers and our business.

The R&D organization for Kodak Alaris is located in upstate Rochester, New York. This is where our numerous patents are developed, owned, and managed, and protected.

Our scanner manufacturing facilities are in China. One of which is wholly owned and operated by Kodak Alaris with all Kodak Alaris employees since 1986.

The second manufacturing facility is owned by Liton, a Taiwanese company with which we've been doing business for many years. Which is renowned for its diligence in maintaining confidentiality and protecting its customers' IP. We've been with Liton since 2004.

In either case, whether the facility

is operated and owned by Kodak Alaris or Liton, there is absolutely no evidence or risk of any theft of Kodak Alaris IP in the many years we have done business there.

Kodak Alaris generates a significant revenue from public sector customers, government and education in the U.S., approximately 20 percent of our revenue. We are a preferred vendor with an install base of over 800 thousand scanners in the U.S.

Kodak Alaris products are provided to the U.S. government directly and indirectly through many of our reselling partners. Imposing additional duties on the subject products would increase the costs of products provided to U.S. government customers and the costs of services on the install base due to increased parts costs sourced from China.

Small and medium business would be impacted similarly. As a small to medium sized business, the impact of additional duties of these products would be substantial to our company.

Kodak Alaris' global earnings would be impacted by 20 percent. Our U.S. and Latin America operations would realize a negative impact to our earnings from 10 to 50 percent, depending on a location.

To offset this negative impact and remain competitive, we would be forced to reduce head count by approximately 10 percent in the U.S. This would impact our ability to develop and innovate in the U.S., and threaten our ability to invest in our future.

We would also be forced to move our scanner manufacturing operations to new facilities. A move to any new facility would result in increased costs compared to our current operations.

Relocating would require us to recertify our products. And the migration would be a substantial project taking upwards toward the year, imposing additional burden on the engineering support and our current commercialization schedules.

The supply of new products and services to all our customers and consumers, including U.S., would be impacted.

I appreciate your consideration. And respectfully ask you to exclude the noted products from the proposed duty increases. Thank you.

MR. BISHOP: Thank you Ms. Clas. Our final witness on this Panel is Jason Oxman with the Electronic Transaction Association. Mr. Oxman, you have five minutes.

MR. OXMAN: Thank you and good afternoon. My name is Jason Oxman. I'm the CEO of the Electronic Transactions Association. ETA is a 30-year-old organization headquartered here in Washington. Represents more than five hundred payments technology companies.

Companies that are principally in the business of providing merchants in the United States the ability to accept electronic payments from their companies -- from their customers.

I want to start off by noting that we appreciate very much, the Administration's efforts to ensure that American businesses can compete fairly and effectively on a global stage.

We also understand the concerns that some of our fellow participants in this proceeding have raised about intellectual property concerns, about the ability to enter the Chinese market.

And our purpose in testifying on one specific HTS item is not to, in any way, minimize the Administration's efforts or the concerns expressed by others here over this three-day hearing. We are here in fact specifically to speak about 8470.50.00, cash registers and point of sale terminals.

Members of the Electronic Transactions Association last year processed nearly seven trillion dollars in electronic payments on behalf of our merchant customers. More than 70 percent of the U.S. GDP is retail spending in the United States.

And more than 70 percent of retail spending is done by consumers via electronic payments. So, our impact on the U.S. economy is significant.

Our opposition to increased tariffs on this single tariff line is based on two principal arguments set out in our written testimony. First, we believe that this specific tariff would have no impact on China.

And second, we believe it would cause disproportionate economic harm to U.S. businesses, specifically small and medium size enterprises.

As to the first point, last year, or actually in 2016, the last year data is available, 54.2 million payment card authorization terminals, sometimes referred to as point of sale or POS terminals, were shipped worldwide. These are terminalis we're all familiar with as consumers that we use to insert our chip cards or tap our phones or watches to pay at the point of sale.

Of those 54.2 million POS terminals, only five million of those were shipped to the U.S. market. So the U.S. globally represents less than 10 percent of the worldwide market for POS terminals.

Significantly, the Asia Pacific region is growing significantly in its proportion of shipments of these terminals. Specifically, last year a 28.3 percent increase in units to 31.7 million POS in the Asia Pacific region. Again, versus five million in the U.S.

Other regions of the globe are also showing a significant increase. Indeed, growth in the Latin American/Caribbean market was faster than in the U.S. market.

So, in short any further downturn in sales to the U.S. caused by increased tariffs would not have any impact on China. And indeed, the Chinese manufacturers would recover simply by shipping to other regions of the world, which they are already doing today.

Approximately 95 to 100 percent of ETA

member companies' POS terminals are manufactured in China. They of course use U.S. intellectual property.

Shifting manufacturing to the United States is simply not an option. For four reasons that we set out in our written testimony.

First, the labor is not available. Second, there's a lack of secondary facilities and infrastructure to support this kind of manufacturing.

Third, it would cost millions of dollars per manufacturing line. And fourth, the certification process for POS terminals is significant and could not be accommodated in the time periods set out by the tariff schedule.

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

Our second reason that we set out in our testimony, beyond the lack of impact on

China, is it would have a disproportionate impact here in the U.S. Specifically, we are in the midst of an upgrade of terminals to chip card capability.

Larger retailers have largely finished their work. Small and medium sized businesses have not.

So, about 50 percent of the retailers in the U.S., about 4.5 million merchant locations have upgraded. About half have not. They are largely small businesses.

They would not be able to sustain the 25 percent increase in prices. And they would not be able to buy these upgraded devices.

We're concerned that would leave a security gap in those small and medium businesses. And we think that is not in -- does not advance the interests of the Administration.

Thank you.

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

CHAIR TSAO: I'll direct the first question to my colleague at USTR.

MR. WINELAND: Thank you. Thank you all for your testimony. And a question for Mr. Larned.

When you look at your water filtration and treatment products, are there either domestic, U.S., or non-Chinese, other country sources for these products?

MR. LARNED: Yes. There are other sources where we could look to move our supplies.

MR. BISHOP: Pull your mic a little closer, Jeff, please.

MR. LARNED: Yep. There are other sources where we could look to move our supply chain. There are two issues that we face in doing so.

One, it would be a lengthy and very costly process to do so. Water filtration products need to be certified due to water quality and water safety issues in the United States.

And so it would be a lengthy process. And obviously during that process we would be at a competitive disadvantage to companies like Haier and other folks in the industry.

So, I think that it could have a devastating impact on our business over the course of that 18 to 36 months to transfer the supply chain.

We're also in a unique situation where we have a wholly owned factory in China. And that factory is currently supplied with carbon black by our manufacturing facility in Florida where they incorporate it into refrigerator filters and other products.

With the tariff we would become uncompetitive. And those product lines would have to shut down those product lines in that factory.

And that factory would become uncompetitive. And just today that factory is helping support companies like Tupperware and Amway in their aspirations to grow their China business.

And so it would actually harm the ability for some of our partners as well as Culligan to take shares in the water filtration, the fast growing water filtration market in China.

CHAIR TSAO: Mr. Larned, I have a quick follow up. You mentioned in your testimony there's Paragon, which is a subsidiary of Culligan. It also supplies Haier, which is your competitor.

Can you explain how that relationship works? What would be the effect of the proposed tariff on that relationship?

MR. LARNED: Yeah, so Haier, which owns GE Consumer Appliances, sells multiple water filtration lines in North America. The two product lines which are distinct and differentiated are water treatment systems, so a reverse osmosis system that would be installed under the sink in your home.

And refrigerator filters. All right,

so everybody's refrigerator, if you don't know it, you've got a filter in there that you should be changing every six months.

Paragon supplies the refrigerator filters to the GE Corporation. And the GE Corporation sources the reverse osmosis systems through other supply chain and channels.

So, our refrigerator business, we would lose it. They would move it to their supply chain in South Korea or Taiwan or some other place, because we would be uncompetitive.

Their current supply chain and the drinking water systems, the reverse osmosis space would remain competitive. And would put us at a disadvantage, would put Culligan at a disadvantage in the ability to compete with Haier in that space where we participate in a major way in North America and the U.S.

CHAIR TSAO: Thank you.

MS. KORKOS: All right. So my question is for Mr. Rasmussen.

So with respect to Apergy's supply

chain, are there non-Chinese sources for the foundational ESP components?

And then just to follow up, what portion of the final product is actually goods from China, or from China?

MR. RASMUSSEN: Okay. So, absolutely there are other places to get ESP components from other than China. The two other places would be Russia and Singapore.

So Russia today is the largest user of submersible pumps. There are wells there that fit very well that product.

Unfortunately, the Russia market and the products coming out of Singapore, those producers are for our two major competitors. China is the only source where they're supplying the majority of the competition in the market.

So they're not owned by any of our major competitors. And they supply a cost-efficient product into this system.

Your second question was what percentage of the components are coming from

China? So, out of our total products that we sell, 65 percent of the products would be sourced directly from China through eight different suppliers.

MS. PSILLOS: My question is for Mr. Stokes. You mentioned that the demand for the spiral wound gaskets would not likely change in the short and medium term.

And in your opinion, would U.S. consumers of the gasket bear the majority of the cost of the tariff increase?

MR. STOKES: The answer is yes. As I mentioned, virtually all of the standard spiral wound gaskets manufactured for the U.S. market come out of China.

So it is quite likely that this 25 percent tariff will result in an across the board price increase for end user customers. Which tend to be the refineries, chemical plants, pipelines, and such.

And they will, if they can, they will attempt to pass that onto U.S. consumers of other products. So I believe in the near and middle term, I think that's an important distinction, in the near and middle term, the price increase is the most likely outcome.

In the longer term, Flexitallic and other producers would start to seek alternative sources of supply. As you ask similar questions, we are also in the same situation.

We have our own factory in China. So, to move that factory would require 18 months to two years.

It would not come to the United States, to be clear about that. It would not be economically feasible to manufacture here. The most likely alternative sources are, unfortunately, also on the Section 301 watch list.

For example, the small percentage of gaskets that are not produced in China, India is another source. Also, potentially Malaysia for example.

So, that would be the alternative.

There are some companies that source their gaskets directly from China without owning a subsidiary directly from Chinese companies.

They may actually be at somewhat of an advantage in that they could simply after a period of time of working off inventory, make a supply shift to India.

Another potential downside is China is quite, since they make a lot of these products, they have developed good skills. And these are products that are used in safety and environmentally sensitive applications in refineries, chemical plants, pipelines.

An influx of products from countries such as India, Malaysia, Vietnam, could result in lower quality products coming into our supply chain in very sensitive industries. So, that's my best projection of what would happen in the near and middle term.

MR. SULEWSKI: Hi, this is Adam Sulewski, DHS. This question is for Bestway, Inc.

You had testified that the expected increase in revenue over the next five years depends on macroeconomic variables and anticipated increases in swimming.

Can you elaborate on how an increase in tariff on the products you listed would affect the expected revenue?

MS. TEEMS: The expected revenue? I'm sorry, I don't have an answer for that. The -- our biggest concern is having to have these costs roll down to the consumers and the customers.

I -- our revenue? I don't have an answer for -- I can follow up with our team and get an answer.

MR. MOORE: I have a question for Mr. Tharp. I was wondering if you could elaborate on how the proposed tariff would change your supply chain?

And also, whether it would be feasible to source the HVAC products you listed from another country instead of China?

MR. THARP: The imposed tariffs would

definitely have an impact on the parts that we buy. And therefore the -- we would have to go through a process of approving new sources.

There are not any sources for the -- as I mentioned, specifically for the rotary compressors in the United States. So we would have to go to other countries.

And the -- as mentioned, I think by the gentleman from Electrolux, similar situation where because of the performance of the product that's mandated by the Department of Energy, because of the reliability requirements that -- and safety requirements to meet the underwriters' laboratory's requirements, there's a very significant process that we have to use to validate and verify that new parts are compliant with all these other aspects.

And it's a -- typically a multi-year process in order to approve these parts. So, I agree with the comment that Electrolux made there.

Are there other sources? I -- for

some of the parts there are some domestically. For some parts there are not.

And we would have to, again, do a multi-year investigation.

CHAIR TSAO: Sort of a follow up on that. Since you did mention Electrolux appliances, I recall that in their testimony the compressor for them, at least with their product, is the most expensive or not most expensive, very expensive part of their overall appliance. Right?

MR. THARP: Yes, sir.

CHAIR TSAO: Is that true for the products that you speak of as well?

MR. THARP: Yes, sir. It is a major component of the system.

MS. PETTIS: Mr. Allen, I want to know, do you have any information on alternative, non-Chinese sources for your products?

MR. ALLEN: Thank you for your question. Yeah, we do. Right now currently we have two constraints for going and moving production to other markets.

Cost as well as capacity. So, let me address cost first. We make mid-priced optics for the mass market at very specific price points.

We also make higher priced optics in some other markets and countries such as South Korea, Japan, and the Philippines. But based on our experience, those costs are three times higher.

So, for us it's not a viable option to be able to commercialize the current optics in those other markets. The second constraint that we have is capacity.

So we currently utilize eight different suppliers from China to be able to go meet the global demand that we have for this product. And there currently is not the capacity in these other markets to meet our needs.

MS. PETTIS: Okay. Thank you.

MS. PSILLOS: I have a question for the Electronic Transactions Association, Mr.

Oxman. You mentioned in your testimony that suppliers are already shifting production to alternative markets.

Can you elaborate and provide details on what markets they are shifting to?

MR. OXMAN: So the specific numbers are set out in our written testimony. And to the extent that those are not sufficient, we can certainly follow up with more.

The largest shift that we've seen actually interestingly enough, is within the Asia Pacific region. So, the growth in the Asia Pacific region, the last year for which data is available, which was 2016, was 28 percent.

So I mentioned that 54 million units were shipped worldwide, 32 million of those 54 million were in the Asia Pacific region. So that's a 28 percent increase over the prior year.

Only five million of those were in the U.S. So, that's the region. And it's somewhat ironic, I realize, suggesting that the shift of Chinese manufactured products would be into the

Asia Pacific region.

But that's the pattern that we've seen.

MS. PSILLOS: Okay. My question is for Kodak Alaris. So can you elaborate on the potential cost and problems that Kodak Alaris would have if it shifted its scanner production operation out of China?

MS. CLAS: Sure. So we estimate, we looked at actually our entire portfolio of both production scanners, which are the large scanners, they're the 90 thousand priced scanners, and the very small distributed scanners.

And we've looked at both part sourcing and alternate manufacturing for those. Looking very diligently at that.

And our increase in cost is anywhere from 10 percent to 60 percent, depending on which scanner you're talking about. And so -- because we do all that manufacturing in China.

And so it's pretty much 100 percent of

our parts in China today, that would be the state that we would have to be in. We'd have to decrease our costs significantly in other areas, and/or, pass those costs along to the rest of the supply chain, the resellers and our end customers.

And there would also be a big impact on the reliability of those parts as well. So, we've been with those manufacturing operations and suppliers for a long time.

We have very, very high quality products. And this includes our service organization.

We're pretty much the only scanner vendor who has our own service organization today. And part of it is because of the labor involved and the skilled people.

But the other part is the service parts that we source, also gives us a high quality opportunity to service the scanners.

CHAIR TSAO: Ma'am, you mentioned that you sell a lot of these scanners to the U.S.

government through government procurement. How would a proposed increase and tariffs affect your existing government contracts?

MS. CLAS: In service. Right. Yeah, and so both the serve -- the existing install base.

CHAIR TSAO: Yes.

MS. CLAS: We have the contracts that we have on the service, there would be a significant increase that we'd have to pass along to the government.

MR. BISHOP: We've released this Panel with our thanks. And we invite our final Panel of the day to come forward and be seated please.

(Whereupon, the above-entitled matter went off the record at 3:40 p.m. and resumed at 3:44 p.m.)

MR. BISHOP: Mr. Chairman the first witness on this Panel is John Constantine of Apex Tool Group, LLC.

Mr. Constantine, you have five minutes.

MR. CONSTANTINE: Thank you. So Apex Tool Group is a 1.4 billion dollar company. We compete in the hand tool and the power tool market.

We employ about 18 hundred associates in the United States. And about eight thousand globally.

We have seven manufacturing facilities in the United States. We also have wholly owned facilities in China.

Our products are sold through major retailers like Home Depot and Ace Hardware, as well as large industrial distributors like Fastenal and Grainger. Places like that.

We believe that the proposed action under Section 301 erroneously includes some of our hand tool products as part of Code 8466.10.01. And our proposal is to exclude these items. In question would be an item like this, which is a ratchet that you see here.

So I have three points to make real quick here. First, we believe that these products have no impact on the Chinese government related to their acts, policies and practices around intellectual property.

The USTR rightfully intends to target industries that China could use to achieve its 2025 goals of global dominance in industries such as aerospace equipment, high tech shipping, new materials and medicine and things like that.

But these basic ratchets and drivers that you see here, have no impact really on China's effort in those areas. These products are not nearly in the realm of what we'd call cutting edge.

Ratchets have been in existence for over 100 years. They've changed very little over that span.

This product that I have here, which is a very current product, all the invention was done in the 1950s and 1960s on this product. The items are quite common, available and owned by millions of households in America and millions of professional tool users in America.

We do own our factories in China where these are produced. We've never been pressured to transfer any data, information, technology, or invention.

Nor have we ever had any inquiries from the China government regarding our intellectual property. Related, we would say that the Chinese government would see products like this as a low value product.

It's easy to make. Not consistent with any desire on their part to enter high tech or more value added manufacturing.

These items, we think, are unfairly classified as tool holders. Which is why they're part of this under 8466.10.01. And are not really the sort of tool holder that Section 301 intends to protect.

Second point. These proposed actions will have a negative impact on Apex Tool Group, its customers and the end users of the product. There's very little capacity in the United States for these kinds of products.

And the existing capacity in the USA, which is very limited, would be far less than Apex and a lot of our peer companies would require to be able to fulfil demand.

Second, the difference in cost between a USA version of these kinds of products and an Asia version of these kinds of products, is close to 45 to 50 percent. So it's a significant cost increase and would require significant capacity and time in order to manufacture products like this in the U.S.

And then ATG, as would any company, we would not be able to absorb this tariff. So we would pass it onto our trade customers like Ace Hardware and Home Depot, and customers like that.

And then they would then pass it onto their consumer. So, it creates a rather large increase in pricing that I'll talk about in a second.

And then the third point, is that in addition to the current tariff coding system that we talked about before, it not only includes products like I show here, as an individual ratchet, but it includes the product that I put on the floor there. If you can see, which is a large tool set.

So, there's an anomaly with the way things are classified. That that tool set, which is a 268-piece set. This is just an example.

But, it's a 268 piece set that would also be subject to this tariff. Even though about eight of the items in the 268-piece set are called tool holders.

But the entire set would be subject to the 25 percent tariff. This would create a major impact on the American consumer, taking the retail price of this set from roughly 150 dollars to 225, 230 dollars.

So, in percentage terms, that's a huge difference. And a pretty noticeable difference to the American consumer.

So in summary, ATG appreciates the thoughtfulness of the USTR to examine what products may be impacted. And hopes that this review process will ferret out anomalies such as the hand tools that we just talked about.

We believe that the basic hand tool is not one of the products that should be included in the target list. Only because of an older tariff court case are these kinds of low tech products wrapped into this tariff provision.

We agree that something should be done.

MR. BISHOP: Mr. Constantine, your time is expired. Could you wrap up, please?

MR CONSTANTINE: Yeah. Sure. We agree that something should be done to address any of the state-sponsored IPR theft issues from China.

But the proposed action of including these products, we believe, is an unintended consequence, and disproportionately negatively impacts the American business and consumer. Thank you.

MR. BISHOP: Thank you Mr. Constantine. Our next witness is Doug Friesen of

SANY America.

Mr. Friesen, you have five minutes.

MR. FRIESEN: Good afternoon and thank you for the opportunity to test -- yes, thank you.

Good afternoon again. And thanks for the opportunity to testify today. My name is Doug Friesen. And I'm the CEO Of SANY America.

SANY America is a small company getting ready to start up here in North America. We basically sell, service, and distribute construction equipment like hydraulic excavators, port equipment, cranes, wheel loaders, and motor graders.

And I didn't have an example to show you today. It's too big to bring in.

(Laughter.)

MR. FRIESEN: But most of this equipment that we bring in, incorporates engines and other systems supplied by major U.S. manufacturers such as Cummins Engines. And Cummins Engines happens to be the highest value part that we purchase.

So, we sell both in the United States, Canada, Mexico and Central America. We're a subsidiary of a Chinese company, the SANY Group.

It's a Chinese company that's decided to build and manufacture equipment here in the United States instead of just strictly export.

I was hired about ten months ago specifically for my expertise to bring in manufacturing onboard to new operations. And that was my goal as I was hired, is to bring manufacturing to the United States.

We are the largest source of Chinese foreign direct investment, one of the largest sources in the state of Georgia. We've recently completed the construction of 120 million dollar manufacturing facility site.

And it serves as our corporate headquarters in Peachtree City, Georgia. Which is just south of Atlanta.

The facility has 340 thousand square feet of manufacturing space, 60 thousand feet of office space. And it has a lot of room to grow. We have a lot of acreage along with it.

We made a significant investment partnering closely with the local economic development officials. This investment is put at substantial risk by the proposed application of the 301 tariffs on certain SANY equipment and parts.

We hope to begin production of the hydraulic excavators in Peachtree, Georgia within a year. And other equipment products will follow.

The facility was built with the capacity to produce more than two thousand heavy equipment units per year. We're committed to the U.S. market as a construction and port equipment producer, and as a top rate service, and also parts provider.

SANY America also has invested in the American work force. We currently employ around 70 people at Peachtree City right now.

We also have an independent dealer

network of 38 dealers. Targeted to grow to 100 dealers.

Each one of these are private, small business owners who employ salesmen, technicians, and parts specialists. And all of them are a member of the AED, American Equipment Distributors as well.

We're in the process right now of hiring three hundred new people for the manufacturing process. We've just hired our first leader even this week to start the manufacturing process to transfer products from China to the United States.

And despite all of this, SANY America's manufacturing plans are -- despite the plans and our ability to sell and to service hundreds of construction and port customers nationwide, will be threatened should the Administration impose the proposed tariffs.

While we plan to produce excavators at Peachtree City within a year, SANY America needs to import certain equipment in the interim to fill our customers' requirements at the same time.

We'll need to begin to build up our parts inventory. But many of the parts that we'll need for the Peachtree City facilities are also on the proposed tariff's list.

SANY America products are relied upon in the construction industry. We have about a population of two thousand units in the marketplace right now.

Our products play an important role in the U.S. industry. And they're by no means high tech.

We cannot see that the imposing tariffs on such equipment would have an impact on the Chinese high tech sectors. Instead the tariffs would have an adverse impact on the U.S. workers and U.S. industry.

And would discourage new investments in the United States. So, consequently SANY America respectfully requests the Administration to consider removal of the proposed list of tariffs on certain construction and port equipment and parts classified under Chapter 84 of the HTSUS.

We supplied a detailed list of the tariff numbers of concerns with our written comments that were dated on May 11. The top three categories of products that we're concerned about are the excavators, the port equipment and cranes, and all the parts that are associated with that.

The failure to remove these items from the proposed increased tariffs will jeopardize hundreds of jobs in Georgia and the substantial investment that we've already made in Peachtree City, Georgia.

So, thank you for the opportunity to testify today. And I look forward to any of your questions.

MR. BISHOP: Thank you Mr. Friesen. Our next witness is Michael Kersey with the American Lawn Mower Company of the Great States Corporation.

Mr. Kersey, you have five minutes.

MR. KERSEY: Members of the Trade Policy Staff Committee, thank you for the opportunity to testify today. I am Michael Kersey, President of the American Lawn Mower Company and Great States Corporation, which I will refer to today as ALM.

ALM, a family owned Indiana company is more than 120 years old. We have provided the consumer with a reliable, low emission, easy to use option in the lawn and garden equipment market since the company's founding in 1895.

At the time, Robert B. Kersey, my great-grandfather started his business focusing on the reel lawn mower. The reel mower which is solely powered by the operator's force continued to be the company's backbone into the early 1940s.

After a brief shift to supply the U.S. military with practice bombs in support of Armed Forces during World War II, the company went back to its bread and butter, the reel mower. And has continued to be an industry leader in this market segment despite the introduction of the gasoline-powered mower.

During the shift from reel to gasoline mower, ALM was able to weather a well-saturated reel market of over 60 domestic suppliers in the early 1950s to four in the 1970s by providing excellent quality, by focusing on customer service, and by the vertical integration of ALM's processes.

Starting in the 1980s, the company made the decision to expand its product offering to the small garden tiller market. However, choosing to focus on a much smaller, more reliable, and more environmentally friendly manual and later electric tiller segment.

In the 2000s, ALM has continued to expand its product portfolio to include chipper shredders and snow throwers. Not only focusing on new plug in electric products, but also becoming a leader in the battery operated outdoor power tool market.

Today ALM products are sold at Walmart, the Home Depot, Amazon, Lowes, Ace Hardware, True Value and many more.

A number of ALM products are on the proposed 301 tariff list, including corded and lithium battery powered snow throwers, chipper shredders, and various other product parts.

We supplied a detailed list of the tariff numbers of concern with our written comments dated May 11. These products represent a significant portion of our sales.

To the best of our knowledge, there are no U.S. manufacturers of these electric and battery powered products. ALM must import these, and the predominant source is China.

It is difficult for us to imagine that other countries would be able to replace China as the supplier of these products, at least within a year's time. And we do not foresee that ALM or any other U.S. company could begin to manufacture these products in the United States without a lengthy disruption in supply.

If the Administration imposes tariffs on our products, it will jeopardize ALM and will not help a single U.S. manufacturer. Moreover, because ALM's products are designed primarily for home use, the imposition of tariffs on ALM's products would have a disproportionate impact on American households.

Our customers rely on ALM's products and other similar products for low emission yard and garden care. And for snow removal, particularly during the extreme winters that the east coast has been experiencing.

If we were to experience another bad winter this year, the country would most likely see shortages of snow throwers. This would greatly impact the consumer, especially the independent elderly.

I think it's important to note that this is a -- we have for snow throwers, there is a -- already a highly variable, you know, factor when it comes to the retailers' prediction and demand. And that's the amount of snow.

And then you throw another 25 percent cost increase on top of that, and the result will be cancelled orders just right off the bat. And that will start in a few months, really.

ALM's products are not high tech. They are not the sort of things that benefit from China's intellectual property practices.

Nor do they contribute to China's high tech ambitions. It makes no sense that these products are on the proposed tariff list.

In fact, I would think that imposing tariffs on snow throwers, chipper shredders, and various outdoor tool parts would run counter to what the Administration is trying to accomplish here.

It would only encourage Chinese producers of these goods to migrate to more expensive, higher tech products, the sort of products we were attempting to target with these 301 tariffs.

TPSC staff, ALM will supplement this testimony as necessary with a post hearing brief.

But I thank you for the opportunity to testify today.

And I look forward to any questions.

MR. BISHOP: Thank you Mr. Kersey. Our next witness is Blake Phillips with EQI Limited.

Mr. Phillips, you have five minutes.

MR. PHILLIPS: Thank you and good afternoon. My name is Blake Phillips. And I'm here today on behalf of EQI Limited where I serve as the President and CEO.

I've been with EQI since 2010. And have worked in the foundry industry for nearly 15 years.

Prior to entering the private sector, I proudly served as a Naval Flight Officer in the U.S. Navy for eight years.

EQI provides tailored design engineering procurement and logistic services to a broad base of U.S. original equipment manufacturers or OEMs in the heavy equipment and industrial markets.

We're headquartered in Norton Shores, Michigan. And currently employ 27 salaried and fully benefitted employees working in highly skilled technical, customer service, financial, and operational roles.

We are a diverse group that's representative of many small to medium sized businesses that form the backbone of our national economy. I would like to emphasize that EQI supports the Administration's efforts to ensure free and fair trade with China.

China's discriminatory and restrictive intellectual property policies are bad for business. And should not be tolerated.

We're therefore in favor of imposing a specific and narrowly targeted tariff on products that have benefitted from China's policies in order to restore a level playing field in the U.S. market.

The proposed tariff on gray iron counterweight castings however, will not serve to achieve the objectives of the proposed tariffs.

There's no relevant intellectual property associated with these commodity products.

And their production has no bearing on any existing U.S./China technology dispute or claim. More importantly, and for reasons that I'll be discussing today, a 25 percent tariff on counterweight castings will be ineffective in eliminating the Chinese policies at issue.

However, the imposition of such a tariff will cause disproportionate and undue harm to U.S. manufacturers and American workers.

As shown in the photographs attached to my testimony today, counterweight castings are required to safely and efficiently operate utility vehicles and machinery in the material handling, aerial, work platform, construction, forestry, and agricultural industries by balancing the weight of large loads.

EQI was established in 2004 to fill a specific gap in the U.S. foundry market for these types of products. The foundry industry in the U.S. has, for the past 20 years, focused on manufacturing higher complexity castings, both in design and in cast materials.

As a result, approximately 75 percent of the global capacity to produce gray iron counterweight castings resides in China. There's only one counterweight foundry operating in the U.S. today. And it's a wholly owned, operated and subsidized by Toyota, primarily for its exclusive use.

EQI imports counterweights from third party suppliers in China in a semi-finished state under four HTSUS subheadings, 8431.20, 8431.41, and 8431.49.9095 and this is .9010. Those are detailed in our written comments if you don't want to write those down.

Obviously which counterweight depends on the specific equipment or machinery in which they will be used. After importation, the castings are processed, finished, and warehoused by our supply chain partners in Pennsylvania, Kentucky, Virginia, Iowa, Indiana, and Illinois.

Our castings are used by American

businesses including Caterpillar, John Deere, OshKosh, GLG, Crown Equipment, and Hyster Yale to support their large scale manufacturing operations in the U.S., as well as several smaller scale and niche equipment manufacturers.

Counterweight castings are an essential element in the production of heavy equipment and utility vehicles. They are not optional equipment. And our OEM customers depend on a reliable supply.

At present, there is no viable option in the U.S. from which these America businesses can source counterweights other than China. Domestic capacity at the scale required doesn't exist.

Moreover, given the large capital investment and small profit margin for counterweights, a new counterweight foundry capacity is not being built in the U.S. And likely never will be.

The return on investment is simply too long. And the margins on this commodity product too narrow to justify the expense.

The likelihood that major capital investments will be made based solely on the benefit that a tariff might provide to the domestic foundry industry is virtually zero as any tariff can easily be reversed in the future by a subsequent Administration.

Because counterweight production largely resides in China, counterweight castings will continue to be imported regardless of any tariff imposed. A 25 percent tariff on counterweights will therefore function as little more than a penalty tax on U.S. manufacturers.

A tariff will increase EQI's prices from its supply chain partners. And we will in turn be forced to increase our own prices to the OEMs.

These higher costs will reduce demand and threaten hundreds of thousands of jobs at the OEMs and their downstream suppliers. Many of which are small and medium sized businesses like EQI.

The result will be fewer jobs throughout the United States. Particularly in centers of U.S. manufacturing where OEM customers operate their own manufacturing facilities, including Pennsylvania, North Carolina, Kentucky, Ohio, Indiana, Iowa, and Illinois.

For these reasons we respectfully request that the counterweight castings be removed from the proposed list that will be subject to the additional 25 percent tariff.

As Congressman Huizenga stated in the attached letter supporting our request, removing counterweight castings will promote the continued success of U.S. manufacturing in the foundry and heavy equipment industries, and protect the hardworking middle class Americans they employ.

Thank you for your consideration. And I'm happy to answer any questions you may have.

MR. BISHOP: Thank you Mr. Phillips. Our next witness is Brian Smith with LBC Bakery Equipment, Incorporated.

Mr. Smith, you have five minutes.

MR. SMITH: Thank you. Good afternoon. My name is Brian Smith. And I am the General Manager and CFO of LBC Bakery Equipment headquartered in Marysville, Washington.

I am here today to ask you to not include certain bakery equipment on any retaliation list, as including these products will only hurt U.S. businesses like mine, and the customers who use our products, including schools, hospitals, and other community facilities.

LBC designs, engineers, imports, sells, and supports several lines of bakery rack ovens and bakery proofers. This equipment is imported from China under HTS subheading 8419.81.50, with spare parts imported under 8419.90.95.

Both of which are on the list of subheadings to be assessed the additional 25 percent tariff.

LBC has imported rack ovens and proofers from the same factory in China since

2005. This factory began producing rack ovens and proofers for other customers in 1998.

Both this factory and LBC are currently majority owned by a Taiwanese company, which itself began producing bakery equipment in 1988.

By way of background, a proofer is basically a big metal box in which dough sits while it rises. And the oven, of course, is where the dough is baked.

Bakery ovens and proofers are sold to a wide variety of customers in the United States. Small and medium sized customers include independently owned bakeries, school cafeterias and school district commissaries, colleges and universities, hospitals, rehabilitation facilities, state and local correctional systems, single location grocery stores or restaurants, and small grocery store or restaurant chains having between a few and a few dozen locations.

Large customers primarily include supermarket chains with hundreds or thousands of locations. And large hotel chains.

Approximately 75 percent of LBC's customer base in 2017 consisted of small to medium sized end users. While hard statistics are difficult to come by in our industry, it is widely believed that the U.S. market for rack ovens and proofers is dominated by three suppliers, with LBC being either the second or third largest.

We understand the various concerns that our government has with the policies outlined in the Trade Representative's notice. And we fully support our government's initiative to ensure that everyone competes fairly.

However, the acts identified by the Trade Representative do not apply to LBC or its products. To manufacture rack ovens and proofers in China, the Chinese government did not invest in LBC, did not require LBC to enter into a joint venture, and did not require LBC to transfer intellectual property to China or a Chinese company.

Chinese regulations did not and have not forced nonmarket terms on LBC's licenses or any technology related contracts. In fact, when it comes to technology, bakery rack ovens and proofers are far from cutting edge.

People have been proofing dough and baking bread for thousands of years. The rack oven itself, which is the primary item in question, was invented by a European company in the 1950s.

And there has been little in the way of innovation in these products over the past 20 years. Of the innovation which has taken place in recent years, much of it is related to energy efficiency with LBC's double rack gas oven being the clear leader among the three main competitors per published test results issued by the independent testing agency, Fisher-Nickel.

So we respectfully ask that you refrain from pulling us and our customers, the majority of whom are small and medium sized, into this fight with which we have had little to do.

Respectfully, I believe that including our products in the retaliation list would be ineffective and would create other problems. It would result in the following: very little if any pressure would be placed on China to reform the acts, policies and practices identified by the Trade Representative.

A much needed competitor in the industry will be greatly handicapped and possibly eliminated. The cost of rack ovens and proofers for all customers in the U.S., particularly small to medium sized end users, will increase.

The cost of maintaining equipment owned by thousands of customers in the U.S., will increase. Regarding bakery ovens and proofers, we believe the cost to the U.S. consumer will exceed the benefit, if any, to the U.S. economy derived by application of the additional tariff to these products.

On behalf of my company, our workers, and our community-based customers, I thank you for the time to explain our position. And I respectfully ask that you not include our products in any retaliation list.

Thank you.

MR. BISHOP: Thank you Mr. Smith. Our next witness is Ernest Tai with LW Scientific, Incorporated.

Mr. Tai, you have five minutes.

MR. TAI: Thank you. Today I will be addressing the tariff codes that are listed in paragraph three of my submitted statement.

So, I won't refer to that right now. First of all, I want to thank the Committee that's been convened to hear our testimony.

I wanted to say that this is a really refreshing conversation that we're having. The conversation that celebrates and protects what's good about America and American manufacturing.

You know, we are the beneficiary, our company is the beneficiary of many conversations very similar to this that have been happening about protecting our interests. So, I appreciate that and I appreciate this committee.

So to give some context, I'm the CEO of LW Scientific. We're a privately held small company located in Atlanta, Georgia.

We are an ISO 13485 medical device manufacturer. We employ around 30 employees, give or take in Atlanta.

But we also have a wholly owned subsidiary factory that is in Shanghai, China. So, what makes us unique in particular is that we do have a global footprint as a small business.

And so, I think Mr. Tharp was the one that, DG that said that he was the poster-child, their company was the poster-child of what this Committee is trying to accomplish. I would propose that we are the poster-child's close cousin, I think. Because we are a small business.

But we are reflective of, I think, the larger conversation of where we want to go in America and in protecting our interest. And I'm also cognizant of the idea that we are reflective of that 75 percent of the population that is represented by small businesses of exporters.

That was Mr. Keating's testimony. So, in short, I would suggest that the tariffs unduly impact our competitiveness because we do have the global footprint.

In particular, I think it has a negative impact to an area of our economy that we have deemed necessary to give particular attention, and that is in the healthcare world.

So, further as a manufacturer, I'd like to address this global impact. So, we import and we export.

So, 70 percent of our products that we manufacture, we manufacture for domestic use. Thirty percent of our products we manufacture for export.

We import from all over the world. We are a global manufacturer in that all of our products are made of components from all over the world.

But we manufacture and we assemble in the United States. So one of the impacts that I think other Panelists have suggested, is that this does impact American jobs.

So, in the export world, which is 30 percent of our revenue, we operate on very small margins. And some of the suppliers that we have that are in China, in fact are our competitors on the global scene.

And we do win in many of the cases in the global scene. So, the -- really, I think the insidious unintended impact would be that our export trade would be unduly impacted.

And, in addition to that, we would lose American jobs to what? To our Chinese competitors. And they would be winning our business.

So, I think that's an insidious result of the tariffs specifically as they relate to the ones that I listed in paragraph three. So, I appreciate the Committee's listening to these tariff codes.

And I conclude my testimony.

MR. BISHOP: Thank you Mr. Tai. Our

next witness is John Hoff with Global Point Technology. Mr. Hoff, you have five minutes.

MR. HOFF: Yes, thanks. I appreciate this opportunity that you've given us. My name is John Hoff, and I am the owner and President of Global Point Technology.

Global Point is based in Farmington, New York. And currently has 19 well-paid employees, all American citizens.

I'm providing this testimony because the proposed tariffs under Section 301 of the Trade Act would substantially injure Global Point. This would force us either to cease operations, and/or shift production locations at great expense to my company.

And cause supply disruptions to my customers. Either scenario would result in a loss of U.S. jobs and direct harm to our customers and their customers, most of whom are well-established U.S. manufacturers.

I respectfully urge USTR not to impose additional 25 percent tariffs on the articles listed in Exhibit A of our submission. Global Point was created in 1974 as a manufacture's rep firm focusing on bringing quality components to manufacturers and various industries.

Over subsequent years, we morphed into a design sourcing and manufacturing entity. In addition to maintaining a production operation at our facility in upstate New York, along with the ownership in other U.S. manufacturing entities, Global Point has established relationships with suppliers in China, Taiwan, and Thailand.

Global Point imports from China are not high technology items. And thus, should not be covered by the Section 301 proceeding.

In 2007 Global Point took control of China Solenoid Technology, CST, located in Xiamen, China. All shares of CST are held by me personally.

There are no Chinese or joint venture shareholders. CST specializes in the design and production of solenoids, electromagnetic modules, wire harnesses, customized switches, and other electro-mechanical assemblies.

CST exports approximately 25 percent of its production to the United States. And products from CST account for a substantial portion of Global Point's U.S. imports from China. The remaining 75 percent of CST's production is sold within China to the automotive industry.

Neither Global Point nor CST has ever been required to share any technical or proprietary information with Chinese officials or organizations. In sum, Global Point has a favorable experience in China.

A large percentage of the articles that Global Point imports from China are identified in the list published by USTR for potential tariffs of 25 percent.

While Global Point will be affected by the additional tariffs and 14 separate and distinct HTS codes, the largest impact will be felt by three, 8505.90.7501, 8479.90.9440, and 9032.90.6180.

Given the time constraints of this hearing, I refer the Panel to our written comments submitted on May 11. In this testimony I will just identify a few key points.

First, while the China IP issues identified by the USTR may well reflect legitimate problems for other U.S. companies operating in that country, Global Point has not experienced these challenges.

To the contrary. We have had a constructive relationship with China. And have not encountered any problems of IP theft, cyber theft, or other technology related complications.

Second, punitive tariffs on Global Point's imports will do nothing to remedy China's allegedly unfair IP practices. There is no connection between the products that Global Point imports from China and China's IP practices.

Global Point's work with CST and other suppliers have been collaborative and transparent. Put simply, Global Point is surprised that the articles it produces and imports were identified as being linked to Chinese unfair practices.

These are not the type of high technology products associated with IP infringement or cyber theft. And we have not experienced any such issues.

Third, punitive tariffs on our imports would unduly harm Global Point and our customers. The proposed 25 percent tariffs would force us to spend exponentially more in custom duties.

Global Point currently spends approximately 40 thousand per year to import these articles. This would skyrocket to over 1.2 million in additional duties.

These tariffs are especially unwarranted to Global Point given that our main Chinese supplier, CST, is an affiliated company owned and controlled by us. Thus imposing these tariffs would not be punishing a Chinese company. Rather, it would be punishing a U.S. company.

In sum, 25 percent tariffs and products imported by Global Point would cause severe economic harm to Global Point and our 19 U.S. employees, as well as our customers.

To the extent additional import duties are imposed as part of this proceeding, Global Point believes USTR should take a tailored approach to avoid unwarranted consequences as discussed in our written statement.

Global Point believes that alternative measures should be more appropriate than a blanket imposition of 25 percent duties on 13 hundred products.

In conclusion, the proposed Section 301 tariffs would substantially injure Global Point and our employees and our U.S. customers. These measures are unwarranted because they do not further the objective of this proceeding, or be effective in remedying USTR's underlying concern with China's IP practices.

Therefore, I respectfully urge USTR not to impose new 25 percent tariffs on the articles listed in Exhibit A to my testimony.

Thank you very much for your careful

consideration of these views.

MR. BISHOP: Thank you, Mr. Hoff. Our final witness on this panel is Steve McGuire of McGuire Bearing Company. Mr. McGuire, you have five minutes.

MR. McGUIRE: Good afternoon. My name is Steve McGuire. I'm President of McGuire Bearing Company. Our company is a family-owned distributor of bearings and mechanical power transmission components with facilities throughout the Northwest and its headquarters in Portland, Oregon.

The company was started by my father in 1954 in a single facility in Portland and has grown to include facilities in nine different locations in four different states: Oregon, Washington, Idaho and Utah, with over 160 employees.

McGuire Bearing Company is opposed to the proposed action under 301 to impose 25 percent duties on the products that McGuire Bearing imports from China. Among the products imported are ball and roller bearings, mounted bearings, corrosion-resistant bearings, grease and oil seals, sprockets, pulleys, and speed reducers. We submitted comments on May 11th that provide all the reasons why we opposed the proposed additional duties.

McGuire Bearing Company believes that imposing duties on the bearing and mechanical power transmission products that McGuire imports from China would not be practicable or effective to obtain the elimination of China's unreasonable and discriminatory acts, policies, and practices identified by USTR in its report in this investigation.

None of the products McGuire Bearing imports are high tech products and none of the Chinese producers of the products benefit from the Chinese government's acts, policies, or practices identified by the USTR as being unreasonable or discriminatory or that burden or restrict U.S. commerce. In fact, none of our products and none of the suppliers to McGuire are even identified or mentioned in the USTR report in this investigation.

Maintaining or imposing additional duties on these products would cause disproportionate economic harm to U.S. interests, including McGuire Bearing Company, its customers, and other small or medium-sized businesses and consumers.

Although imposing duties on the products McGuire Bearing imports from China will not help to change China's practices, it will do substantial harm to McGuire Bearing. Notably, the products McGuire Bearing imports from China are a small part of the value chain supplied by McGuire Bearing to its customers for those products. It is the services, R&D, engineering, and technical support supplied by McGuire Bearing, all performed in the United States that sets apart McGuire Bearing's products.

Through superior quality and technical expertise we have gained a reputation for saving our customers money and for carrying the inventory they need. The duties will also harm our customers who would need to pay a higher price for the imported bearings and mechanical power transmission components that they use as input parts and components for the downstream products they manufacture.

Our customers use the bearings and mechanical power transmission components we supply to them to produce in the United States a variety of downstream products including nut, potato, and other harvesting equipment and farm machinery, specialty trucks, pumps, equipment for airports, wheel hubs for automobiles and other auto parts, and a variety of other equipment and machinery. The 25 percent duties will either drive them offshore or cause them to lose business to lower priced imports.

Other customers of McGuire Bearing Company would be harmed because their costs of production will rise because they will need to pay a higher price for the imported bearings and mechanical power transmission components that they use to run their equipment and machinery in their facilities. By increasing these companies' costs of production, the increased duties make it more difficult for these companies to compete in the U.S. and global marketplace.

For all these reasons McGuire Bearing opposes the imposition of tariffs of 25 percent on the products McGuire Bearing imports. We believe that if any Section 301 relief is to be imposed by the U.S. Government on imports from China, it should be narrowly tailored to adversely impact Chinese companies that benefit from the unreasonable and discriminatory policies identified in USTR's report and to target the greatest impact on the Chinese government, and not adversely impact U.S. companies and U.S. consumers like McGuire Bearing Company and our customers.

Including McGuire Bearing imported products on the list of products subject to increased duties will much more adversely impact U.S. companies and U.S. consumers than they will adversely impact either Chinese companies that benefit from China's policies and practices or the Chinese government. Indeed, as I just mentioned, there likely will be no adverse impact on the Chinese government from imposing additional duties on the products imported from China by McGuire Bearing.

Our comments submitted May 11th identify the products McGuire Bearing Company imports from China. Thank you. And I'd be happy to take any questions.

MR. BISHOP: Thank you, Mr. McGuire. Mr. Chairman, that concludes direct testimony from this panel.

CHAIRMAN TSAO: Thank you. First question goes to Department of Commerce.

MS. PSILLOS: My question is for Apex Tool Group, Mr. Constantine.

In addition to China what are the other foreign sources for the ratchets or other related tools sold by Apex Tool Group and its competitors? In your testimony you seemed to mention other countries in Asia.

MR. CONSTANTINE: Yes. I would say, in the industry, roughly 50, 55 percent of these kinds of products are originated from China, another 15 to 20 from Taiwan, and the rest globally. United States, roughly 10, 15 percent would be my guess.

CHAIRMAN TSAO: And, sir, I have a follow-up question. You seemed to have alluded to this in your testimony. It's about the classification of the ratchet and also the customs classification for the tool set. You seemed to indicate that there's sort of a quirk with respect to the classification. Am I understanding that correctly?

MR. CONSTANTINE: Yes, and it's probably something we could submit in writing after the fact, but there is an anomaly with the way the tariff coding works where the whole set, for example, the set at the foot there, ends up getting classified as a tool holder, even though tool holders within the set are a very, very small amount of what is made up of that, in this case, 268-piece set. And I know more about this than I ever thought I would know, but it's way too much to explain. But a good portion of our business or sets like the one that you see here would be subject to the 25 percent as a result. But we can submit a lot more detail on that in the writing to follow up.

MR. MOORE: For Mr. Friesen. I was wondering if you could further elaborate on how the proposed tariffs would affect SANY's plans to begin manufacturing operations in your Georgia facility.

MR. FRIESEN: Yes, sure. I mean, just to start with the 25 percent tariff alone, our margins aren't even quite that high. So when you put a 25 percent tariff on, we have no ability to compete and basically runs us right out of business. So, it's a competitive market. Margins are low. So, that's the key.

MS. PETTIS: Mr. Kersey, first I want to say that my father always used a rotor mower, but I want to know are there any other alternative non-Chinese sources for your products that are currently on the proposed list?

MR. KERSEY: For our products on the proposed list there are none that I'm aware of. They might exist, but we don't see them in a marketplace. Certainly not in Mexico, I don't believe. But these are all really high-labor component items that, like toys, will tend to migrate to, no matter where the country is, will tend to migrate out of high labor cost areas like the United States, Western Europe. I think toys migrated first to Japan and then once labor started to increase in price there, they moved to China. Same thing will happen in these kind of outdoor tools.

MS. PETTIS: Thank you.

MR. WINELAND: Mr. Phillips, could you just help us understand better the makeup of the Chinese counterweight casting industry and what percentage of their output is coming to the United States versus other foreign countries versus Chinese domestic use?

MR. PHILLIPS: Yes, sure thing. The latest data that I have from the American Foundry Society, which does a global study in capacity and tonnage, so, counterweight, gray iron counterweight castings are a subset of gray iron. China itself has just over 20 million metric tons of capacity. If you add up the next six largest countries behind China, it's about half of the Chinese capacity. So, just from a gray iron casting standpoint, they have the facilities, they have the tonnage.

If you look at counterweights specifically, we estimate it's about 75 percent. And that's from a few sources that we have at the World Foundry Organization. I think it might be a little higher than that. The reason for that is the process itself is a vacuum molding process, which was invented in Asia and it's largely stayed there. The one foundry I mentioned domestically here, a captive foundry of Toyota, uses that process. The few other counterweight foundries that are domestic, they are resin sand and they are very small and very uncompetitive.

So, that capacity in China for counterweights, a lot of that does come to the U.S., but the Koreans source there, all the Japanese heavy industry folks source there. Obviously, there's a lot of large Chinese equipment manufacturers like SANY who have foundry capacity in China, but just about every large equipment manufacturer in the U.S. is sourcing counterweights through China.

MR. SULEWSKI: This is Adam Sulewski with DHS. This question is for LBC Bakery Equipment. You had testified that the same company owns LBC and its factory in China. Is it feasible for LBC to source its ovens and proofers from another country?

MR. SMITH: Very difficult. So, the Taiwanese majority owner of LBC, which began business in the '80s in Taiwan, opened up a plant in China in the '90s. And it's heavily vertically integrated. It's got a lot of technology, a lot of laser cutting machines, a lot of C&C machines. It's very well done. And, yes, we could possibly move manufacturing somewhere else, but at what cost? Probably a very high cost that wouldn't make sense. So that's where we're at currently.

MS. KORKOS: My question is for Mr. Tai. So, you mentioned that LW Scientific owns its own factory in Shanghai. Can you discuss as well if it's feasible for LW Scientific to modify its pledging?

MR. TAI: Yes, thanks for the question. I think it's worth mentioned, too, as a follow-up to that question, that we're somewhat like Flexitallic, Mr. Stokes I think it was, that represented that, even though they had wholly-owned subsidiaries in China, they have not experienced any IP loss or theft or are familiar with particularly unfair trade practices. And we're in the same boat as well.

So as I mentioned in the opening part

of my statement, we manufacture and distribute an array of products, so it's I guess a multi-faceted answer to the question. All microscopes in some fashion are manufactured in the world in China, in mainland China. All brands: Leica, Olympus, Nikon, German brands like ZEISS and Leica. They're all made in China and they arguably bring them into the United States or German territory or Japan to add value. We're no different than that. So we would not be able to move our microscope sourcing out China, period.

As far as other products, for example our heating products, the micro-controllers and the sensors on that are sole-sourced from China. They're just not made anywhere else in the world. We bring those to the States and we add further value through our manufacturing and our assembly.

MR. WINELAND: Thank you. Mr. Hoff, a question about sourcing as well. You indicated that your main supplier is CST, an affiliated entity in China. But, with that, is Global Point in a position to source products from some of your other countries that you have relationships with, Taiwan, Thailand, and so forth? Could you talk a little bit more about potential for sourcing from other countries?

MR. HOFF: Sure. There's two phases to our supply chain. One, as you mentioned, we source from third party factories, and we source, for lack of a better term, from our own factories. There are some miscellaneous components that we probably could find sources elsewhere. When I first went over in 1984, a majority of our sourcing was done in Taiwan, but through the mid-'80s into the mid-'90s almost every one of our Taiwan sources moved to China. We have a couple old legacy products that we still bring in from Taiwan, so we don't have a large supply base there anymore.

We bring one specific product, incandescent lamps, in from Thailand. It's a dying business, so we don't have much of a supply base there. But a majority of the products that 301 impacts are from our own factories, and for me to relocate a factory would be very costly. An awful lot of our components are used -- probably 40 percent of our production is to the automotive industry where we have a very long validation period. I'm sure most of you know that it takes years to validate an automotive sub-assembly.

So, timing would probably be a bigger problem than the actual cost to fund a new factory. But, furthermore to that, we have our 100 percent owned, wholly-owned foreign factory in China. We've done -- 75 percent of our production stays in China. We have huge growth plans there because we've been able to sell to the automotive industry there very successfully. So I really wouldn't like entertaining the fact that I'd have to dilute that factory by locating elsewhere.

MS. PSILLOS: Mr. McGuire, can you elaborate on how the proposed tariff on bearings would affect the other aspects of your business that you mentioned in your testimony, such as services, R&D, and technical support?

MR. McGUIRE: My main point in bringing those up was that that is all part of what the customer gets as product. And it's performed here. That was the point of it. The R&D, the engineering, we do things like bearing failure analysis that help customers to identify, if they have a problem, to identify how to solve the problem. And that was the point that I was bringing up there, is that that is all work performed here.

MS. PSILLOS: And I would just encourage, so, Mr. McGuire, if it's not already in your submission from May 11th, the specific HS numbers.

MR. McGUIRE: It is.

MS. PSILLOS: Okay.

MR. McGUIRE: It is.

MR. BISHOP: We release this panel with our thanks. At this point we stand in recess until 9:00 a.m. tomorrow in Courtroom A, which is across the hall. If you come to this room tomorrow, you can enjoy the Commission's antidumping and countervailing duty hearing on polytetrafluoroethylene, or PTFE, resin.

Otherwise, join us at 9:00 a.m. in Courtroom A. Thank you all so much.

(Whereupon, the above-entitled matter went off the record at 4:41 p.m.)

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C E R T I F I C A T E

This is to certify that the foregoing transcript

In the matter of: Section 301 Tariffs Public Hearing

Before: US Trade Representative

Date: 05-16-18

Place: Washington, DC

was duly recorded and accurately transcribed under my direction; further, that said transcript is a true and accurate record of the proceedings.

Neal R Gross

Court Reporter